



## DVI

DAVID VAUGHAN INVESTMENTS

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## LOOK BENEATH THE SURFACE

Will Williams *Chairman, President & CEO*

I often hear the phrase, "a rising tide lifts all boats," as economists explain the positive impact of general economic growth on various segments of the economy. This statement may be true in economic theory, but if 2018 is any indication, the capital markets simply do not agree with this conclusion. It has been some time since we have experienced such diverging investment performance results among broad asset classes and individual style categories. The continued steady rise of growth-oriented U.S. domestic stocks simply does not reflect the capital markets reality where

investment returns appear to be all over the place, both positive and negative. Despite a global economic backdrop that would be considered stable and healthy by most, the underlying trends suggest more indecision and anxiety by market participants as they try to decipher what the economic future might look like.

As we attempt to provide thoughtful counsel to our clients, we frequently remind them that the key to long-term investment success is answering one fundamental question: "What portfolio are you comfortable with when markets are going through difficult times?" Behavioral finance studies have consistently concluded that investors in general become risk-seeking when the investment backdrop is positive

and become risk-averse when the markets are in turmoil. If you have the discipline of establishing a risk tolerance home base, you will avoid the temptation of taking on more risk than you can psychologically tolerate in market downdrafts. During market corrections, investors who consistently de-risk at the price decline trough are pursuing a recipe for disaster.

In today's market environment as an example, it is awfully tempting to add large cap growth stocks to your portfolio mix after stellar performance over the past seven quarters. Seldom do advocates of this investment style remind us of the 63% and 51% declines respectfully that occurred during the 2000 and 2007 market corrections. Having the knowledge and longer-term historical perspective allows you to make smart decisions on the appropriate risk exposures for your portfolio. Using near-term investment trends for those decisions tends to bias the outcome and does not provide you with a reasonable expectation as to what might happen in the future.



YTD  
1/1/2018 -  
9/30/2018  
Total Rates  
of Return

## INDICES

Russell 1000 Growth TR USD	17.09
S&P 500 TR USD	10.56
S&P 500 Equal Weighted TR USD	7.28
Russell 1000 Value TR USD	3.92
MSCI US REIT GR USD	2.30
MSCI EAFE NR USD	-1.43
BBgBarc US Agg Bond TR USD	-1.60
Bloomberg Commodity TR USD	-2.03
BBgBarc US Govt/Credit Long TR USD	-5.42
MSCI EM NR USD	-7.68

## DESCRIPTION

U.S. Domestic - Large Cap Growth Stocks
U.S. Domestic - Large Cap Blend Stocks - Market Cap Weighted
U.S. Domestic - Large Cap Blend Stocks - Equal Weighted
U.S. Domestic - Large Cap Value Stocks
U.S. Domestic - Real Estate Investment Trusts
International - Developed Markets Equity
U.S. Domestic - Intermediate Term Fixed Income
A Broadly Diversified Commodity Index
U.S. Domestic - Long-Term Fixed Income
International - Emerging Markets Equity

Source: Morningstar, Inc.

# CHANGING INDUSTRY CLASSIFICATIONS

In 1999, MSCI and Standard and Poor's developed the Global Industry Classification Standard (GICS), an industry classification system for use by the global financial community. The GICS structure consists of eleven distinct sectors which are broken further into industry groups and sub-industries. DVI portfolio appraisal reports sort stock holdings according to these sectors and industry groups. Additionally, GICS is used as a basis for market indexes like the S&P 500.

On September 28, 2018, global industry classifications were reclassified. Three sectors were affected, including twenty-six stocks, which represented 10% of the S&P 500 Index. According to GICS, these changes were driven by the rapid evolution of how people communicate and access entertainment content and other information. The integration and consolidation of telecommunications, media, and internet companies through mergers and acquisitions was also a factor.

Specifically, the Telecommunication Services sector will be expanded to include select companies from the

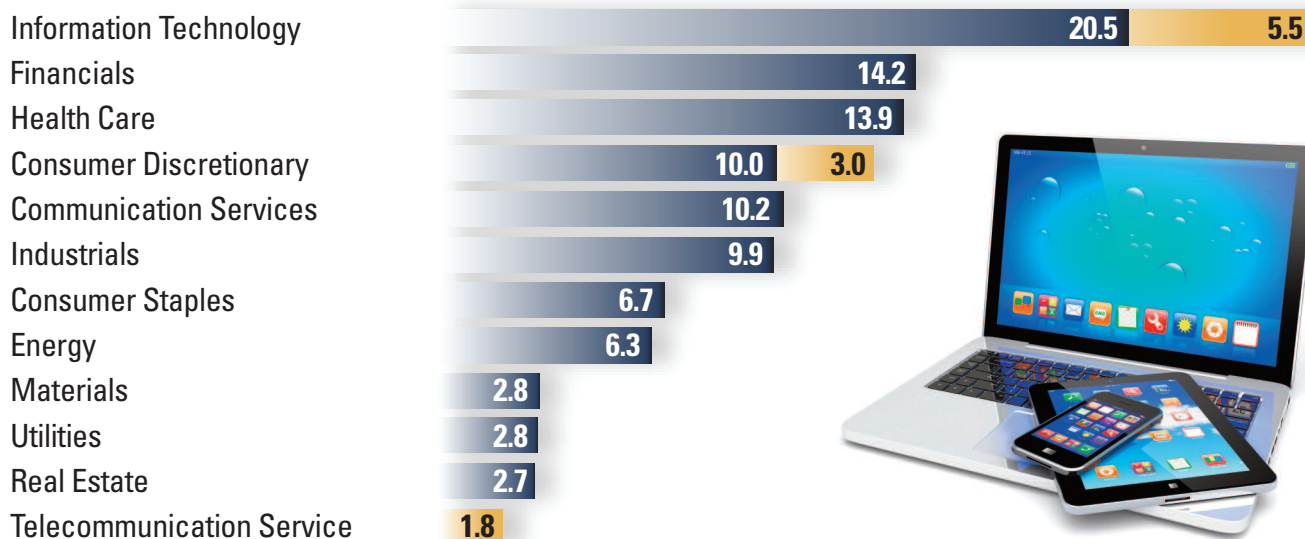
Consumer Discretionary and Information Technology sectors and renamed Communication Services. The new Communication Services sector will combine the traditional telecommunication companies AT&T, Verizon, and CenturyLink with sixteen companies from the Consumer Discretionary sector (CBS, Netflix, Disney, Comcast, among others) and seven companies from the Information Technology sector (Facebook, Alphabet, Twitter, among others). This new Communication Services sector will initially represent approximately 10% of the S&P 500 Index. The chart below provides an overview of the current GICS sector weightings both before and after the reclassification.



While the new sector classifications will cause client reports to look a little different, they will have minimal bearing on how DVI makes investment decisions. Our steadfast focus remains on investing in companies with long traditions of paying and increasing their dividends whose stocks currently trade at attractive valuations. Patience and discipline – always.

## THE IMPACT OF GICS CHANGES ON S&P 500® INDEX SECTOR WEIGHTINGS

### CURRENT S&P 500 SECTOR



■ NEW WEIGHT      ■ REDUCTION FROM CHANGE

Source: Bloomberg Finance L.P., as of 5/31/2018

## 2018 CLIENT SURVEY RESULTS

In May 2018, DVI sent nearly **800** of our clients an **18 question survey** asking them to rate various aspects of our service from 0-5 with 5.0 being the highest score. With **35% participation**, we were able to gather a great deal of information, the highlights of which are summarized here.

# 5.0



The stat of which we are most proud is that our clients feel like they are **treated in a friendly, polite and courteous manner** by DVI Associates

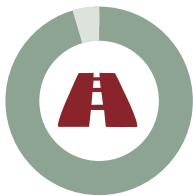
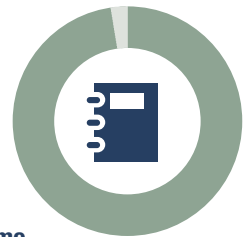


# 4.9

With our highest marks in the Client Service area, our clients feel that their **calls and emails are returned promptly**

# 4.9

Whether delivered through the mail or electronically on the DVI Client Portal, our clients feel that their **DVI quarterly reports are received in a regular, consistent time**



# 4.8

DVI strives to form relationships in which we take the time to ensure that our clients feel that **DVI fully understands their goals for the future**



# 4.8

At DVI we listen and consider our clients' input and, as a result, our clients **are comfortable with the level of risk in their portfolios**



# 4.8

At DVI we take the time to understand our clients' goals and offer customized financial solutions, as a result our clients feel that the **advice DVI provides is helping create a better financial future**



# 4.8

DVI has made firm continuity and succession planning a top priority, and as a result, our clients feel **comfortable with the future leadership at DVI**



### Interest in Additional Ancillary Services

Estate Planning, Tax Planning strategies and Trust Services were ranked the highest in terms of topics of interest from current clients.

*All metrics are reported on a 5.0 scale*



# 4.8

## Overall Client Satisfaction

# 4.1

### Area We Need to Improve

We noted that while most respondents felt the partnership with MCB was important (4.7), **we need to enhance our communication** of the benefits of the partnership.



# DVI & MCB PARTNERSHIP UPDATE

## ONE YEAR ANNIVERSARY

A year has come and gone since the formation of DVI's new partnership with Morton Community Bank (MCB). Initially there were concerns that a significant disruptive event such as this could possibly side track the positive momentum of both organizations. Fortunately these apprehensions were misguided as both institutions continued along in their historical path of conservative prosperity. We both have been hard at work over these past twelve months and DVI wanted to share a few key developments indicative of the progress we are making together.



### Human Capital & Succession Planning

- A New Share Ownership Plan was adopted to facilitate ongoing share ownership opportunities for DVI Associates, once again emphasizing the high priority of our partnership culture.
- We announced the addition of two new corporate officers and added five new Associates as we continue to be keenly focused on leadership development, right-sizing capacity and addressing firm succession planning.

### Cross-Investment & Governance

- In keeping with the partnership theme, six DVI senior partners acquired share ownership in Hometown Community Bancorp, the holding company of MCB.
- DVI maintained its Independent Board of Managers, adding MCB senior executive officers Andy Honegger and Dirk Roecker and former OSF Healthcare CEO Kevin Schoeplein.
- Will Williams, DVI's President & CEO, was added to the MCB Board of Directors and was named an officer of the Holding Company.

### Modern Trust Company

- The MCB Trust Company was re-branded with a new identity  **MCB Trust & Wealth Management** and new name. A Division of Morton Community Bank
- A multi-year strategic plan was formulated to focus joint efforts on those initiatives deemed to be most impactful, including operational improvements such as a new corporate custodian and an upgraded cloud-based accounting platform.
- DVI developed and implemented, on a sub-advisory basis, enhanced investment strategies for the Trust Company.

## WHAT THE PARTNERSHIP MEANS TO YOU

- **Succession Planning and Firm Continuity at DVI are being addressed**
- **Board Governance remains focused on serving as a fiduciary and "doing the right thing"**
- **Trust Services are being enhanced through effective collaboration between DVI and MCB Trust**
- **Expanded Ancillary Services are being developed through MCB including unique and competitively priced loan structures and cash management services**
- **DVI's "Client Centered" culture remains the fundamental focus of the firm**