FALL 2017 | VOL. 24 | NO. 4
QUARTERLY PERSPECTIVE

DVI
DAVID VAUGHAN INVESTMENTS

OUR COMMITMENT TO RISK MANAGEMENT

Will Williams *President*

At the heart and soul of DVI's value proposition is our historical commitment to risk management. It not only defines who we are as a firm, but it also has made a material contribution to the investment success of our clients over the past several decades. DVI has always professed the value of asking two questions, not just one. Yes, the standard question, "What was the total rate of return of my portfolio?" but also the non-traditional question, "How much risk did I assume to earn that rate of return?" To this day, most new clients that we interact with have no sense as to the risk element of their portfolios. In effect, am I being compensated for the risk that I am assuming in the capital markets? Often times, the only time investors are concerned about risk and learn about risk is when it is too late. It is after they have experienced portfolio losses far in excess of their expectations. Unfortunately, poor subsequent decision-making is likely to follow.

As we close out the third quarter of 2017, an interesting phenomenon has emerged in the financial markets. Almost all equity markets have become eerily quiet. Regardless of U.S. versus foreign,

volatility levels continue to drop to historically low levels. For the S&P 500, price volatility over the past year is almost a third of what it has averaged over the past ten years. The same would hold true for the tech heavy NASDAQ composite. MSCI EAFE, the benchmark for international stocks, is trending in the same direction. Risk as defined by price volatility is on the retreat almost across the board.

So, after three decades as serving as an investment professional, I never thought I would ask this philosophical question. If there is no longer perceived risk in the capital markets, is risk management a meaningful, valuable exercise? If current trends play out well into the future, the answer is no. All things being equal, rational investors will continue to seek out riskier asset classes to achieve the potential of higher rates of return. However, that is not a logical conclusion. There is a long-term economic equilibrium between risk and reward that will stand the test of time. Risk has a tendency of emerging from the unexpected and those that have forgotten the mistakes of the past will once again remember why risk management is a prudent practice.

FORTY YEARS OF QUIET QUALITY

David Vaughan Investments is celebrating forty years as a Registered Investment Advisor with the Securities and Exchange Commission. To commemorate this achievement, DVI has produced an anniversary video that is hosted on our website (https://www.dviinc.com/our-story).

We hope you enjoy this labor of love as we reflect upon the critical factors and important developments that contributed to DVI's long-term success.

Brian Christensen, CFA
Senior Vice President & CIO

VALUE VS. GROWTH…REVISITED

Like 2015, value stocks are trailing growth stocks significantly. Investors are again in love with high-growth companies kicking to the curb many of our preferred value, dividend paying stalwarts. The chart to the right shows the disparity.

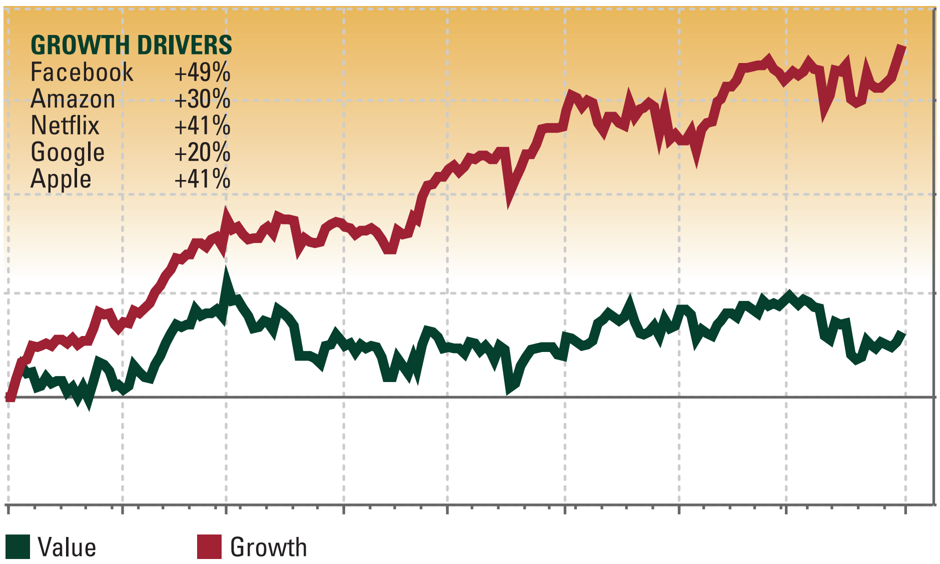
The current avoidance of value stocks has been widespread without regard for size. Small-Cap, Mid-Cap and Large-Cap have all suffered year-to-date.

	VALUE	BLEND	GROWTH	V vs. G
LARGE	4.80%	11.90%	19.20%	-14.40%
MIDCAP	4.60%	8.70%	14.10%	-9.50%
SMALL	-1.30%	4.40%	10.80%	-12.10%

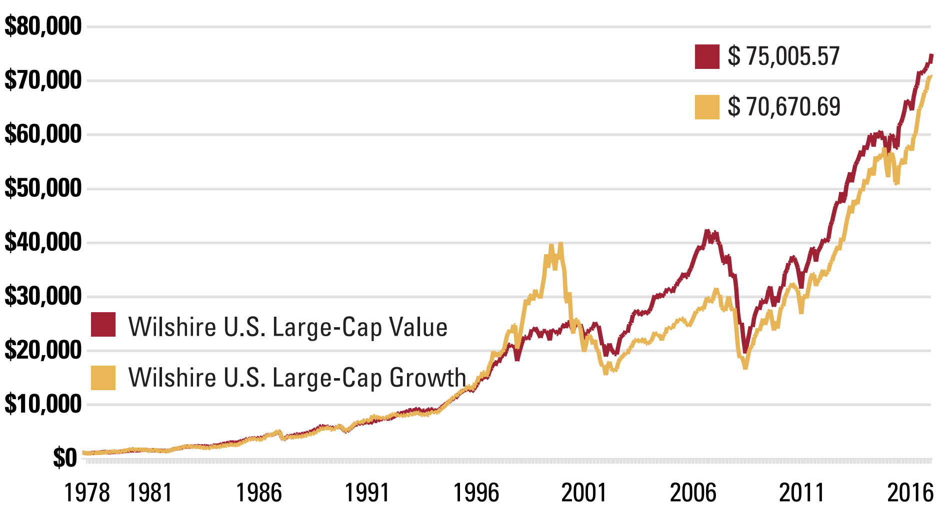
I detailed the academic research and real-world results of both value and growth stocks in my Summer 2015 newsletter article, "Value vs. Growth." Documented in that article were statistics supporting the superiority of value stocks over longer time periods that reflect full market cycles.

The updated chart to the right shows thirty-nine years of comparative results for the Wilshire U.S. Large-Cap Value Index and the Wilshire U.S. Large-Cap Growth Index.

RUSSELL 1000 VALUE VS. RUSSELL 1000 GROWTH | YTD 8/31/17



VALUE VS. GROWTH | 8/1/78 - 9/1/17



Data Source: Wilshire Associates, price only data, retrieved from FRED, Federal Reserve Bank of St. Louis

EQUIFAX SECURITY BREACH

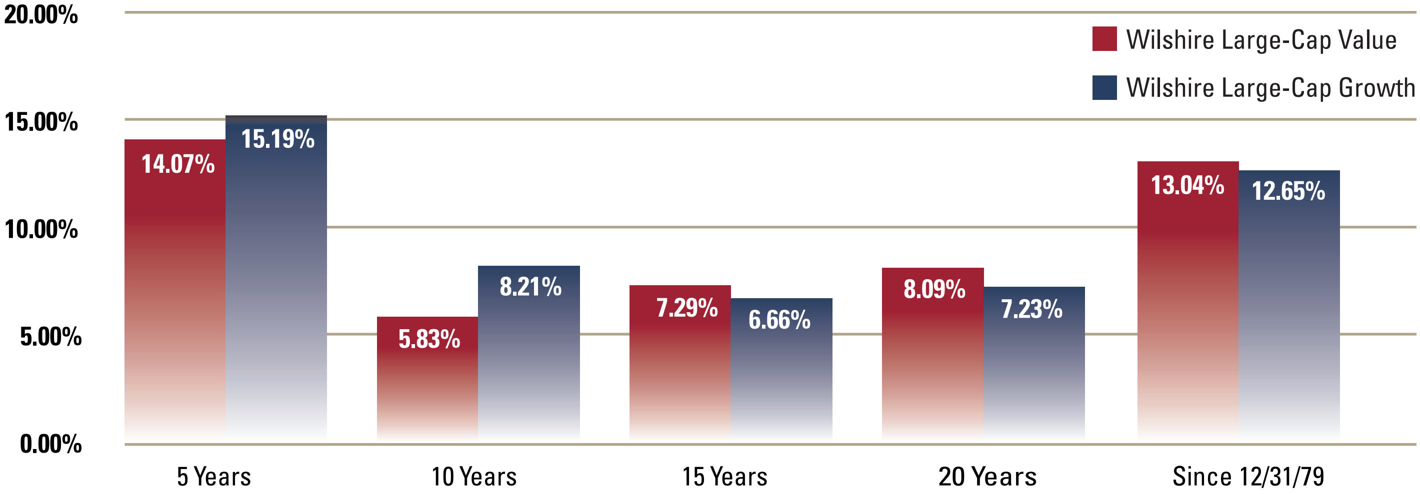
Earlier this summer, Equifax, one of the three primary credit reporting agencies, experienced a massive security breach. During this breach, hackers gained access to names, social security numbers, birthdates and a host of other personal information on approximately 145 million Americans. This is nearly 40% of the U.S. population, and due to the sheer volume of records exposed it may take years before any one person might be impacted.

The Federal Trade Commission's website has many helpful tips and links where you can learn about the Equifax security breach and your options: **https://www.consumer.ftc.gov** and **https://www.consumer.ftc.gov/blog/2017/09/equifax-data-breach-what-do**.

Similar data breaches are only going to increase in frequency. Therefore, it is extremely important that you develop a personal strategy for yourself and your family. We recommend establishing a strong password policy, installing high-quality antivirus and anti-malware programs and regularly monitoring your financial data and accounts.

CONTINUED FROM PAGE 2 : VALUE VS. GROWTH...REVISITED

VALUE VS. GROWTH | ANNUALIZED TOTAL RETURNS AS OF 12/31/16



Data Source: Wilshire Associates, price only data, retrieved from FRED, Federal Reserve Bank of St. Louis

Clearly, the long-term merits of value over growth have not changed. If we consider near-term results over the past five and ten years, the more recent challenge for value investors is evident.

So why do we continue to be advocates of value investing? Because over the years, performance between value and growth has always oscillated but value nearly always shines longer-term. Since 1945, there have only been six time periods when growth outperformed value as measured by five year rolling returns. Factor in the lower risk statistics exhibited by value stocks and the decision is easy.

We don't know when the current run for growth stocks will end but if the past is any indicator it can be quick and violent. The last time growth dramatically outperformed value was during the Tech Bubble. At year-end 1998, value had underperformed growth over the previous one, three, five, ten, fifteen and twenty years. It was a time when many investors thought we were fools holding "old economy" stocks while the "next new thing" roared higher. With value stocks trailing so dramatically it seemed they would need decades to catch-up, if ever. As we now know, it took about a year.

Compared to 2015, year-to-date 2017 relative results feel like deja vu all over again. I'm sure you get tired of hearing me say *stick to the plan*, but it's correct. The investor that chases short-term performance inevitably loses in the long-run as it is nearly impossible to pinpoint market turns and changes in sentiment.

GLENN MAXEY | *Advisory Analyst*

David Vaughan Investments, LLC is pleased to announce that Glenn Maxey has joined the firm as an Advisory Analyst. Glenn earned his Bachelor's Degree in Finance from Southern Methodist University in 2015. After college, Glenn worked for a few years in Investment Banking as a Mergers & Acquisitions Analyst for Evercore in Houston, Texas before joining DVI.

As an Advisory Analyst, Glenn supports DVI's Investment Management and Research Group by performing research and analysis on a range of subjects including: mutual funds, equities, asset allocation, and client portfolios. He also leads our quantitative research initiatives and serves as a Secondary Equity Trader on our trading desk.

When he's not in the office, Glenn enjoys playing golf, duck hunting and spending time with his wife, Kelsey and their dog, Wynston.

Will Williams
President

INDEPENDENTLY UNITED

(Part II) Human Capital

On September 29, 2017, DVI officially completed the partnership of David Vaughan Investments (DVI) and Morton Community Bank (MCB) that was first announced to the public back on June 15, 2017. Independently United is the second among a three part series of articles intending to provide further insight into DVI's thought process supporting this historic corporate initiative.

As the leadership team of DVI peered into their crystal ball to predict future impediments to long-term growth and success, it came as no surprise that number one on the list was human capital. As everyone in the investment advisory business knows, and readily admits, the value of your firm walks out the door each and every day. This business reality naturally places a top strategic priority on the recruitment, training, career pathing and leadership development of DVI Associates.

Next Generation of Leaders

A unique element of DVI is the partnership/shareholder structure in which significant contributors to team DVI are also significant owners of the business. To replicate this proven approach well into the future, it was apparent to us that we needed to: 1) make sure that DVI was structured so that the re-cycling of company equity was doable and 2) create the financial stability of the DVI business model such that the next generation of leaders are willing and able to take on the economic responsibility of moving DVI forward.

Future Recruitment

The success of the registered investment advisory industry over the past decade has placed greater competition on the pool of qualified candidates. CFAs (Chartered Financial Analysts) and CFP®s (Certified Financial Planners®) are in short supply. DVI must stand out not only as an attractive place to work, but also a firm that is committed to future development opportunities for their young hires.

Breadth of Services

Increasingly, the range of ancillary services requested by DVI clients is ever expanding. Years ago, what started out as a handful of exceptions or one-offs have evolved into a growing list of formal services provided to both individual and institutional clients. It is just the nature of the evolution of the business, as investment advisory has become more and more "advisory." It is critical to DVI that we can tap into skill sets beyond traditional asset management roles and responsibilities to serve the growing needs of our clients.

As we contemplated our strategic options, we came to the conclusion that if we were really serious about addressing our human capital needs, we need to build the size, scope and capability of DVI's footprint to be perceived and recognized as an industry leader. By identifying a like-minded private organization such as MCB, a trusted partner, we will build a strong future together.

"On September 29th, DVI converted from an S-Corp to a Limited Liability Company, changing its formal name to David Vaughan Investments, LLC."

HIKE FOR HUNGER

David Vaughan Investments, LLC would like to thank all the sponsors, volunteers, and hikers who made the 2017 DVI Hike for Hunger such a big success. This year, the DVI Hike for Hunger raised more than $52,000 for the South Side Mission. Over the last eleven years, the DVI Hike for Hunger has raised over $658,000!