WINTER 2018 | VOL. 25 | NO. 1

QUARTERLY PERSPECTIVE

DVI

DAVID VAUGHAN INVESTMENTS

2017: A RETROSPECTIVE

Will Williams *Chairman, President & CEO*

The Lack of Normal

When I put pen to paper, there were only four days in 2017 in which we experienced market declines of at least one percent. According to the Wall Street Journal, in the preceding three decades, one percent drops occurred every seven to eight trading days. If this low volatility trend continues through January 5th of next year, it will be the longest stretch in history without at least a five percent high to low pullback within a six month period of time.

perspective. When individual companies take a monumental role in the overall value of the stock market, it always appears that they can do no wrong and their futures appear as bright as ever. At that given point in time, it is hard to imagine a development that would cause them to lose their Midas touch. But, inevitably, their meteoric growth trajectory begins to wobble and fundamentals shift that create future economic headwinds.

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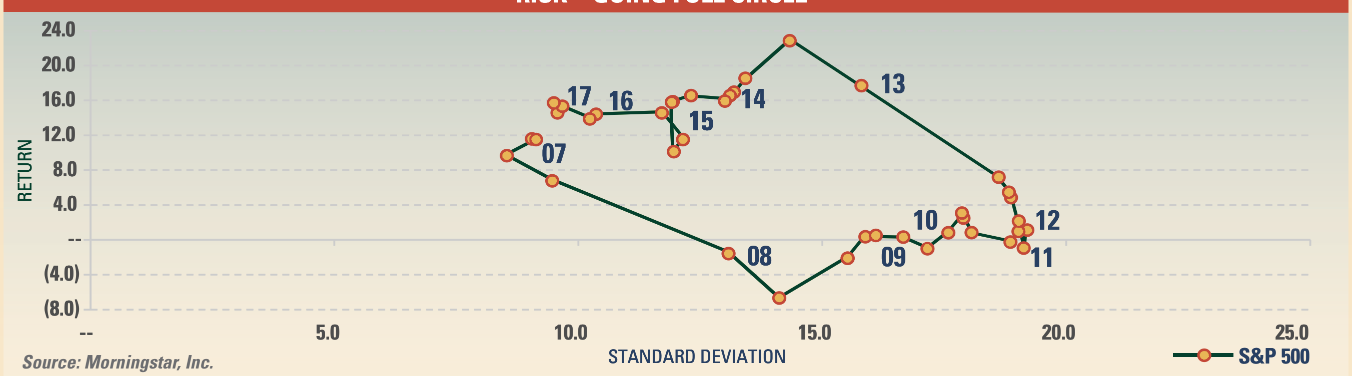
RISK – GOING FULL CIRCLE



Source: Morningstar, Inc.

Another way of describing volatility is the use of a mathematical term "standard deviation." It simply quantifies the variation of individual plot points from the average of all of the data set. In the graph above, standard deviation is the horizontal x-axis and it is being calculated on a five-year lookback basis. For the last decade, we have marched in full circle, starting at less than 10 units of risk back in 2007, working our way to nearly twice that amount for the period 2008 - 2012 and now back to 2007 levels at current day.

As I have commented in prior publications, as volatility materially declines, the positive impact of down market capture ratio becomes less material. You don't have to manage to protect downside if there is simply no downside. DVI's ability to provide superior risk adjusted results will be materially impacted in the future if we continue to experience this extraordinarily quiet market environment.

Good to Great and Then Back to Good Again

Often times, it requires combing through market and economic history to gain a long-term fundamental

LARGEST SHARE OF THE TOTAL STOCK MARKET

	SINCE 1925	PEAK DATE	* PEAK %	**CURRENT %
1	AT&T (Pre-Split)	May 1932	13.0%	1.05%
2	General Motors	Mar 1928	7.9%	0.23%
3	IBM	Jan 1970	6.8%	0.58%
4	Dupont	July 1955	6.0%	0.73%
5	ExxonMobil	Sept 1957	6.0%	1.56%
6	GE	April 1930	4.0%	0.67%
7	Con Edison	Dec 1932	3.8%	0.12%
8	Microsoft	Dec 1999	3.7%	2.88%
9	Apple	Sept 2012	3.2%	3.84%
10	Marathon Oil	Dec 1930	3.0%	0.06%
11	Chevron	July 1926	2.9%	1.04%
12	Cisco Systems	May 2000	2.9%	0.84%
13	Eastman Kodak	July 1972	2.8%	n/a
14	Intel	Aug 2000	2.8%	0.95%
15	U.G.I.	Dec 1932	2.6%	n/a
16	Texaco	Nov 1964	2.5%	n/a
17	RJR Nabisco	Jan 1929	2.4%	n/a
18	Union Carbide	Dec 1942	2.4%	n/a
19	Walmart	Oct 2002	2.4%	0.64%
20	Pfizer	May 2003	2.3%	0.94%

** Source: NY Times, Center for Research in Security Prices*
*** Source: FactSet, S&P 500 Index Data as of 12.26.2017*

Brian Christensen, CFA
Senior Vice President & CIO

THE BENEFITS OF CORPORATE TAX REFORM

By the time you read this, we expect Congress will have passed the 2017 Tax Cuts and Jobs Act and the new legislation will be signed into law. The Act will overhaul the U.S. Tax Code making significant changes to the benefit of corporate America. Most significant is the reduction of the maximum corporate tax rate from 35% to 21%. The change will take the U.S. from having one of the highest corporate tax rates to being closer to the global average of 22%. Below is a chart ranking the corporate tax rates from thirty-five countries across the globe.

A lower corporate tax rate should translate to higher profits. In mid-December, prior to passage of the new tax code, Factset reported analyst consensus 2018 earnings growth estimates for S&P 500 companies of 11.2%. Goldman Sachs estimated an additional 5% and UBS an additional 9.5% increase was possible under tax reform.

A further benefit of the new legislation will allow corporations a one-time repatriation of foreign capital at a 15.5% tax rate for cash or 8% rate on illiquid assets. Currently, U.S. corporations do not pay tax on profits made overseas until they bring the money home. It is hoped that companies will take advantage of the lower one-time rate and reinvest in the U.S. Goldman Sachs estimates that U.S. corporations have cash in excess of $3.1 trillion, with a capital T, held overseas. For many companies, it will be a balancing act to determine the best strategy.

Despite the lower one-time rate, the numbers are still staggering with potential for large per-share impacts. Ultimately, however, the benefits of repatriation should flow to shareholders as companies use the capital to buy-back stock, increase dividends and invest in the growth engines of their respective businesses.

So, with these details as a backdrop, where could we expect to see the greatest positive benefits in the stock market? The chart to the right (on page 3) shows the current average tax rate for each sector of the S&P 500.

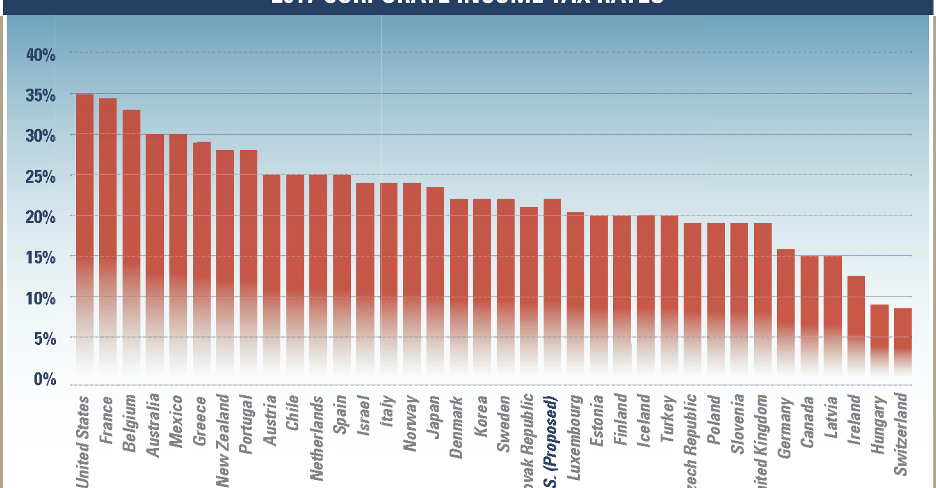
Clearly, sectors carrying the higher tax rates are poised to see benefits. However, generalizing could be dangerous as companies in the same sector may have dramatically different effective tax rates. As an example, in the Consumer Staples sector Coca-Cola paid a 19.5% tax rate in 2016 while Dr. Pepper Snapple suffered at 33.8%. Telecommunications companies have already begun to communicate plans for spending under the new plan. AT&T announced their intent to invest $1 billion in new U.S. infrastructure in 2018. Under the new code, these capital investments can be deducted immediately for tax purposes. AT&T had an effective tax rate of 32.7% in 2016. Both Comcast and AT&T also announced special year-end bonuses of $1,000 per employee upon passage of tax reform. Financial companies, a major component in current DVI portfolios, are expected to see significant benefits too. Not only from the cut in their tax rate, but indirectly as other businesses borrow to increase capital spending, initiate stock repurchase programs, or pursue mergers and acquisitions. Another favored sector at DVI is Energy. The Energy sector has experienced a median tax rate of 36.8% over the past 11 years. They also are highly capital intensive businesses which now will be able to immediately deduct these expenses for tax purposes. Within the Industrial sector, transportation companies stand to benefit as they all have large capital expense budgets. Trucking, railroads, and airlines now have an extra incentive to upgrade fleets with more fuel-efficient vehicles. Those manufacturers of trucks, trains and airplanes should benefit in similar fashion.

20 LARGEST HOLDERS OF CASH OVERSEAS (BILLIONS)

Apple	$239.6
Microsoft	$122.2
Cisco Systems	$65.1
Alphabet	$55.7
Oracle	$52.2
Johnson & Johnson	$41.3
Amgen	$35.0
General Electric	$35.0
Gilead Sciences	$29.3
Qualcomm	$26.8
Coca-Cola	$22.0
PepsiCo	$15.5
Intel	$14.2
Procter & Gamble	$11.0
Amazon.com	$8.6
Bristol-Myers Squibb	$8.4
Visa	$8.4
Caterpillar	$7.7
Facebook	$7.5
Celgene	$6.9

Source: Bloomberg

2017 CORPORATE INCOME TAX RATES

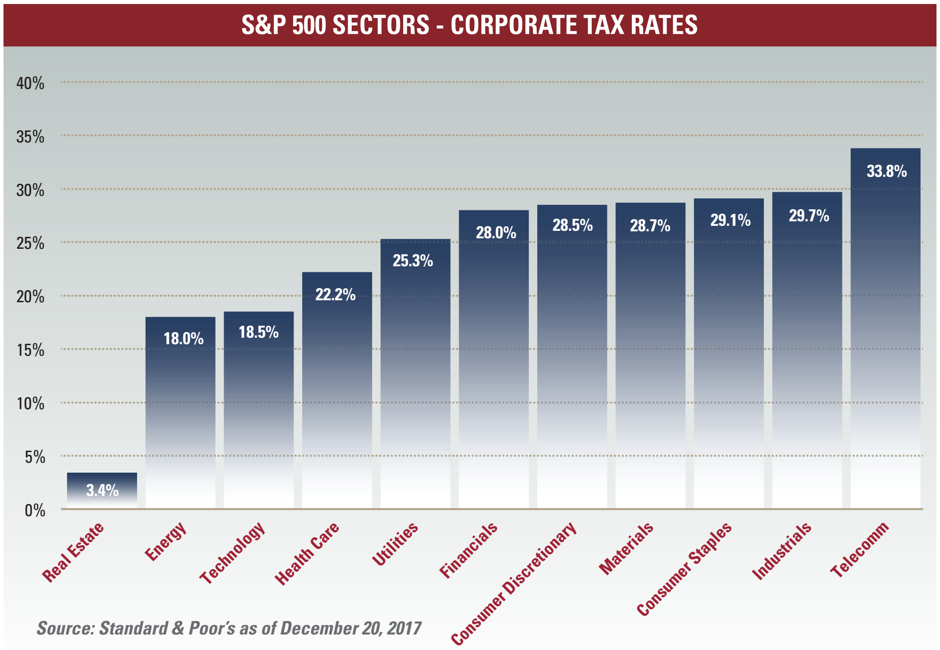


Source: OECD

CONTINUED FROM PAGE 2 : THE BENEFITS OF CORPORATE TAX REFORM

These are just a few examples of where we see opportunity. Our challenge will continue to be identifying individual companies poised to benefit regardless the industry.

We are encouraged by the investment possibilities presented under the new tax code. With the "DVI Glass" always at least half-full, we optimistically think the changes are good for investors and the economy. As we close the books on another year, I am sincerely grateful for your commitment to the patience and discipline of our strategy. Happy New Year.



INDEPENDENTLY UNITED

Will Williams *Chairman, President & CEO*

(Part III) The Modern Trust Company & Private Bank

David Vaughan Investments, LLC is proud of its recently executed partnership with Morton Community Bank (MCB), now one of the largest privately held bank and investment advisory companies in the state of Illinois. Independently United, is the third and final installment of a series of articles intending to provide further insight into DVI's thought process and strategy supporting this historic corporate initiative.

DVI believes aspirations can fit into a corporate strategy playbook. It might be a pipe dream at the time, but it serves a useful purpose. It places a compass point on where your organization needs to be heading; a long-term directional focus. In past articles, I talked about Succession Planning and Human Capital as two strategic pillars of our new partnership with MCB. When we contemplated the transaction with MCB, we soon realized that there was an exciting third pillar as well: an opportunity for DVI to accelerate the timetable on one of its long-term aspirational visions, the development of both a Trust Company and Private Bank. So, low and behold, MCB already had an Illinois chartered trust company!

The Modern Trust Company

As DVI maps out its role and responsibilities with current as well as future high-net-worth clients, it is clear to us that having an affiliated Trust Company will be a material benefit to DVI clients. For some time, clients and their estate planning advisers have approached DVI about trust services. We have attempted to identify solutions, but it has always seemed in the past that each situation demanded a unique custom solution. Being able to shape or guide what the total offering will look like should result in greater confidence that we are working with a best in class firm with outstanding fiduciary services.

Private Bank

We believe a natural next step beyond a Trust offering is the development of a Private Bank. Privately owned firms and family businesses both need trusted advisers to help them think through a myriad of complicated business related topics. Envision a team of professionals that can assist with everything from designing a corporate retirement plan, dealing with business succession planning issues and developing financial plans for several of the key shareholders. This service could tie in lending, trust and investment management as well. All provided by one firm with a dedicated team of individuals to serve you.

Granted, at this early stage our strategy might be more aspirational than real. We fully understand the businesses challenges that lie ahead and the importance of executing upon our operating tactics. However, by identifying a like-minded private organization such as MCB, a trusted partner, we are much closer to achieving our dream.

Will Williams
Chairman, President & CEO

CONTINUED FROM PAGE 1 : 2017: A RETROSPECTIVE

Sometimes getting too big and successful in itself becomes the obstacle and government forces the breakup or the divestiture of the perceived monopoly or oligopoly. In other instances, products over time become obsolete and their stranglehold on certain end markets deteriorate. The stock market itself might be the root cause, placing unrealistic valuations on certain companies that can never be substantiated through actual earnings or cash flow. Certain management teams might have contributed significantly to their market leading position but were unable to identify capable successors to carry on in that tradition.

LARGEST COMPANIES IN THE S&P 500

		* Market Capitalization (In Billions)
1	Apple	871,344
2	Alphabet Inc.	733,153
3	Microsoft	657,206
4	Amazon	559,237
5	Facebook	507,908

** Source: FactSet, S&P 500 Index Data as of 12.26.2017*

Let's face it, it is incredibly difficult to stay on top. So while we celebrate their current successes and a day does not go by that we don't benefit from their products and services, it is highly unlikely that the largest growth companies today will be equally as dominant ten years from now.

Highlights of the New Tax Reform Law

The new tax reform law, commonly called the "Tax Cuts and Jobs Act" (TCJA), is the biggest federal tax law overhaul in 31 years. Please visit the Client Resources page on our website (www.dviinc.com) to review the highlights of some of the most significant changes affecting individual and business taxpayers.

Achieving Milestones

As 2017 comes to a close, it has been an extremely busy year at DVI and we have successfully achieved several meaningful milestones:

• First and foremost is our new partnership with Morton Community Bank. In future years, it will become much clearer to all of our stakeholders the benefits of this new strategic alignment. As we embrace the phrase "Independently United," we are truly mapping out a future vision that is quite unconventional and hard for our competitors to understand. But then again, our commitment towards serving solely in the best interests of our clients is an enigma to most in our industry as well.

• DVI is now a Delaware registered LLC and we created a new holding company DVI Capital Corp. as well. All completed as a means of facilitating our new partnership, but also allowing us to continue the tradition of adding exceptional investment professionals to the status of DVI shareholder.

• We celebrated our 40th anniversary as a SEC Registered Investment Advisor (RIA), a fitting tribute to firm founder David Vaughan's vision back in 1977 to embrace the new RIA industry.

As we approach assets under advisement of nearly $3 billion, we recognize the awesome responsibility that has been placed upon our shoulders by our clients each and every day. It does not go unnoticed nor unappreciated. Our solution is simple: continue our 40 year track record of "Doing the Right Thing" and everything else should take care of itself. Thank you for your ongoing commitment to DVI; we are most grateful.

DVI MARKS MILESTONES AT THE OCTOBER BLOOD DRIVE

On October 26th, DVI reached a few separate milestones with the American Red Cross by hosting its 25th blood drive and also surpassing 500 total units collected!

With the desire to give back to the community in a tangible way, DVI coordinated the first-ever "DVI & Friends" blood drive at the Forest Park Nature Center on March 25th, 2009. Since that time, the staff of David Vaughan Investments, LLC has had the privilege of working in cooperation with our corporate neighbors: Samaritan Ministries International and the Forest Park Nature Center.

As a consequence of planning twenty-five successful drives over the last nine years, we have had the pleasure of welcoming 52 first time donors, collecting 511 pints of blood, and according to the Red Cross, have impacted over 1,500 lives as a result! The upcoming DVI & Friends drive is scheduled for Thursday, March 15, 2018 from 12:00 – 4:30pm.

If you are eligible, please consider taking the time to donate and give the gift of LIFE to patients in need. For more information or to sign up for the upcoming drive, contact Deanna Baele at 309-685-0033 or dbaele@dviinc.com.

For more information about donating blood through the Red Cross, or to find a drive in your area, go to www.redcrossblood.org/donating-blood.