

# DVI

DAVID VAUGHAN INVESTMENTS

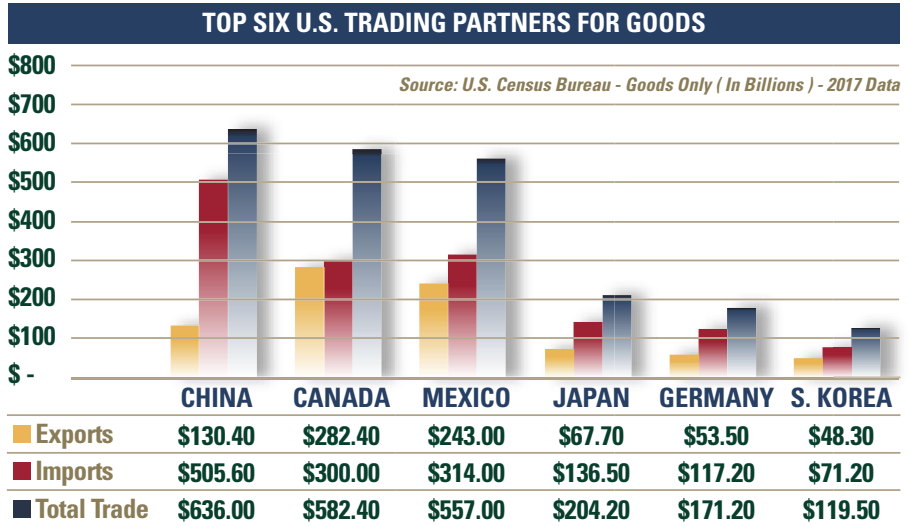
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## MADE IN AMERICA

### The Complexity of the Global Supply Chain

The National Highway Traffic Safety Administration (NHTSA) produces an annual listing of passenger motor vehicles and their U.S./Canadian parts content by value. It might come as a surprise, it sure did to me, that only 42% of the parts content of a Chevrolet Suburban is U.S. or Canadian despite its final assembly being here in the United States. In contrast, if you purchase a Mercedes SUV, roughly 60% of its parts content is U.S. or Canadian. For Mercedes Benz, their U.S. manufactured SUV which is exported into China will now be subject to the recently enacted 25% tariff.

I use this simple example to demonstrate the current complex nature of the global supply chain. Seeking out lower production costs has been pursued by multinational companies now for



decades. In addition, placing production facilities in large end markets has also been adopted as a best practice. As the global trade war begins to heat up and tariffs are placed on various countries and products, companies are scrambling to better understand their supply chain and are attempting to decipher the potential economic ramifications.

### The Story of Harley Davidson

On June 22nd, the European Union (EU) responded to the imposition of U.S. tariffs on steel and aluminum with tariffs of their own. They identified iconic American products such as blue jeans, bourbon and, of course, motorcycles and placed an additional 25% tariff on the previously imposed 6% levy. Harley Davidson estimates the imposition of EU tariffs adds, on average, \$2,200 to each motorcycle sold into Europe. Rather than pass the price increase onto customers and risk the loss of precious market share, Harley has elected to absorb the price increase for now. They estimate on a full year basis the financial hit will be somewhere around \$90 to \$100 million dollars. Their longer-term export strategy, as recently announced by the company, is to shift U.S. based production overseas

to avoid the costs associated with the new tariff.

The EU, as it stands today, is Harley Davidson's second largest market. In 2017, nearly 40,000 Harley motorcycles were sold into the EU, a gain of nearly 8% from the prior year. This contrasts with a 12% decline in U.S. sales volume.

### The Need for Bilateral Trade Negotiations?

The statistics speak for themselves. The Chinese are dominating import activity into the United States. At a staggering \$505 Billion in annual import volume, they are nearly 70% larger than Canada, our second largest trading partner. Ten years ago, Canada and China were neck-in-neck in the race for import dominance into the U.S.

As you examine the trade statistics by largest trading partner, even more revealing is the U.S. export figures. The nearly 5 to 1 ratio of imports to exports would suggest the U.S. has a long way to go to tap into the Chinese domestic economy. When you peel back the onion and examine our primary exports to China, it tends to be commodity-based, low value-added products.

### THE DUELING TARIFF TIMELINE



Source: Peterson Institute for International Economics

## BUYER BEWARE: THE FIDUCIARY RULE IS DEAD



In 2016, the Department of Labor proposed new regulations and requirements to be followed when financial advisors work on behalf of retirement plans and individual retirement accounts (IRA). The legislation was simply referred to as the Fiduciary Rule. After much debate, legal wrangling, and industry push-back, the 5th Circuit Court of Appeals recently vacated the Fiduciary Rule saying it constituted "unreasonableness" and that the Department of Labor's

implementation of the rule constitutes "an arbitrary and capricious exercise of administrative power." While few, if any, of us are in favor of more regulation, this is one area where the need is high.

The Department of Labor's Fiduciary Rule demanded that retirement advisors act in the best interests of their clients and put their client's interests above their own. It left no room to conceal any potential conflict of interest, and stated that all fees and commissions for retirement

plans and retirement planning advice must be clearly disclosed in dollar form to clients. The definition was expanded to include any professional making a recommendation or solicitation in this area. As a registered investment advisor, these fiduciary concepts are engrained in the fabric of DVI yet many players in the insurance and retail brokerage world continue to resist.

Being a fiduciary requires a much higher level of accountability than the suitability standard currently required of financial salespersons, such as brokers, planners and insurance agents. "Suitability" means that as long as an investment recommendation meets a client's defined need and objective, it is deemed appropriate even if it pays the broker the biggest fee or commission. Under a fiduciary standard, financial professionals are legally obligated to put their client's best interests first, rather than simply finding "suitable" investments. The Fiduciary Rule would have therefore eliminated many commission structures that govern the industry.

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## CORPORATE PING PONG CHALLENGE

After a very successful era of running DVI's Hike for Hunger charity event, we are excited to announce that we will be hosting a new and unique event. On Saturday, October 20th, DVI will host the area's first-ever Corporate Ping Pong Challenge at the Monarch Music Hall in Peoria, Illinois.

We are asking corporations to sponsor their best Ping Pong players in what will surely be an entertaining event for everyone. Selected players will have the opportunity to compete one-on-one in a round-robin style tournament, where successful teams will advance to playoffs and, for the lucky few, the championship.

Not a competitive player? We still want you there! Attend and watch some exciting table tennis or practice your own skills on any one of our open-play tables. There will be food catered for the event along with ancillary activities and opportunities to socialize.

As a long-standing partner, all proceeds will continue to benefit Peoria's South Side Mission. Please stay posted as there are more details to come!

<b>WHAT:</b> Corporate Ping Pong Tournament	<b>WHERE:</b> Monarch Music Hall Peoria, Illinois
<b>WHEN:</b> October 20th, 2018	<b>WHY:</b> Raise Money for the South Side Mission

**CONTINUED FROM PAGE 2 : BUYER BEWARE: THE FIDUCIARY RULE IS DEAD**

Just how much does “conflicted advice” drain from retirement accounts each year? In 2015, the White House Council of Economic Advisers published a report titled “The Effects of Conflicted Investment Advice on Retirement Savings.” The report examined the impact of conflicted advice on the retirement savings of Americans with a focus on IRA accounts. Investment losses from conflicted advice result from the incentives some advisors receive for steering savers to products or strategies that provide larger payments to the advisor. The Council of Economic Advisers research concluded that conflicted advice leads to lower investment returns. Savers receiving conflicted advice earn returns roughly one percentage point lower each year. An estimated \$1.7 trillion of IRA assets are invested in products that generally provide payments that generate conflicts of interest. Thus, they estimate the aggregate annual cost of conflicted advice is about \$17 billion each year.

So what can individual investors do to educate themselves about their advisors? Here are a few simple ways to confirm a financial advisor’s background and credentials.

**1. Start with a Background Check**

Research your advisor’s background with the Financial Industry Regulatory Authority at [BrokerCheck.Finra.org](http://BrokerCheck.Finra.org) or the Securities and Exchange Commission at [AdviserInfo.Sec.gov](http://AdviserInfo.Sec.gov).

**2. Ask If Your Advisor is a Fiduciary**

It’s OK to seek confirmation in writing.

**3. Determine How Your Advisor is Paid**

Are you paying an hourly fee, a monthly subscription cost, or a percentage based upon the assets being managed? Does your advisor receive commissions on any transactions?

**4. Know Where Your Money is Kept**

Broker-Dealers will hold assets at their own firms. Independent fee-only advisors typically use a custodian like Schwab Institutional® or TD Ameritrade, Inc.

**5. Get to Know Your Advisor’s Qualifications**

The best known credentials require extensive study and practical experience. Certified Public Accountant, Certified Financial Planner® and Chartered Financial Analyst denote areas of specialization.

While the Department of Labor’s attempt to improve transparency for investors has hit a roadblock, the Security and Exchange Commission is working on a rule of their own. In February of this year, SEC Chairman Jay Clayton stated “I don’t think it’s any secret that we’re going to make a big effort to try and bring clarity and harmony to the investment advisor, broker-dealer standard of conduct regulation – something that’s important to me. It’s something that the market needs. I think it’s something that regulators need.” Let’s hope they get it right this time. Stay Tuned.

**NEW OFFICERS**

At the First Quarter DVI Board of Managers’ meeting, two DVI Associates were named Officers of the company.



Steve Hinrichs



Jeff Huizenga

**Steve Hinrichs, CFA**

*Director of Investment Research*

2018 will mark Steve’s twentieth year as a member of DVI’s investment team. In addition to serving as a portfolio manager, he has in recent years worked in tandem with the firm’s Chief Investment Officer to establish investment research priorities and deliverables for all DVI investment strategies.

**Jeff Huizenga, CFP®**

*Director of Relationship Management*

Jeff is an industry veteran with nearly 24 years of wealth management experience. He joined DVI in 2014 and has quickly established himself both as an effective Relationship Manager and a firmwide resource on trust, estate and financial planning matters.

*“The Board and I are pleased to elevate both Steve and Jeff to Corporate Officers of DVI. It is well deserved recognition for the material contributions they have both made to the firm over the past several years,” said Will Williams, DVI’s Chairman, President & CEO. “Their appointments highlight our focus on the future as we continue to develop the breadth of our internal capabilities and deepen the bench of our leadership team.”*



CONTINUED FROM PAGE 1: MADE IN AMERICA

**TOP FIVE EXPORT/IMPORT MERCHANDISE BY BLOC/COUNTRY**

	EU 28	JAPAN	U.S.	CANADA	CHINA	MEXICO
<b>Top Exports</b> <i>Non-Agricultural</i>	<b>22.0%</b> Autos & Parts, Medical, Gold, Petroleum Products, Aircraft	<b>26.9%</b> Autos & Parts, Electronics	<b>15.3%</b> Refined Petroleum Products, Autos & Parts, Electronics	<b>30.6%</b> Autos & Parts, Petroleum Products, Gold	<b>21.2%</b> Electronics, Machinery & Equipment	<b>31.5%</b> Autos & Parts, Electronics
<b>Top Imports</b> <i>Agriculture</i>	<b>2.1%</b> Alcohol, Wheat, Prepared Foods	<b>0.2%</b> Prepared Foods, Baked Goods, Cigars	<b>3.5%</b> Soy, Corn, Nuts, Wheat	<b>4.2%</b> Wheat, Legumes, Frozen Meat	<b>0.5%</b> Dried Vegetables, Onions, Apples	<b>2.9%</b> Alcohol, Fruits/Vegetables
<b>Top Exports</b> <i>Non-Agricultural</i>	<b>22.8%</b> Petroleum Products, Electronics	<b>22.4%</b> Petroleum Products, Electronics, Medical	<b>22.3%</b> Autos & Parts, Petrol, Electronics, Medicine	<b>19.7%</b> Autos & Parts, Petrol Products	<b>30.9%</b> Electronics, Petroleum Products, Iron Ore, Autos	<b>19.3%</b> Autos & Parts, Petroleum Products, Electronics
<b>Top Imports</b> <i>Agriculture</i>	<b>1.8%</b> Coffee, Soy, Nuts, Palm Oil	<b>2.4%</b> Frozen Meat, Cigars, Corn	<b>1.3%</b> Alcohol, Coffee, Bakers Wares	<b>1.6%</b> Alcohol, Baked Goods, Coffee	<b>2.9%</b> Soy, Malt Extract, Frozen Meat, Palm Oil	<b>1.9%</b> Corn, Soy, Frozen Meat, Wheat

Sources: Wells Fargo Investment Institute, World Trade Organization; March 14, 2018.

**Why Autos and Auto Parts are the Next Target**

It has been discussed by analysts that the Trump administration has targeted the auto industry for political motives. It is speculated that they are trying to gain support in critical swing states, such as Michigan, Ohio and Pennsylvania, prior to the mid-term elections in November.

It is hard to argue the materiality of the auto industry ecosystem to the U.S. economy. When you consider the manufacturers, both Big Three and foreign, parts suppliers and dealers, approximately 7.25 million jobs tie back to the auto industry. And for most developed market economies, save that of China, autos and auto parts lead the way in terms of primary exports. Almost 25% of all global automobile imports are coming into the U.S. market, so the stakes are high if protective tariffs are assessed on these imports. Fourteen foreign automobile manufactures have developed U.S. based manufacturing capacity, but it still represents a small portion of total U.S. sales. The imposition of 25% tariffs on imports would have a material disruptive impact on the auto industry's global supply chain.

**Sowing the Seeds of Economic Uncertainty**

As soon as they hear the words "protectionism" and "tariffs," economists often delight in referencing the Tariff Act of 1930,

which is also known as the Smoot-Hawley Tariff Act. Some would even suggest that Smoot-Hawley was the primary cause for the Great Depression, as after it was enacted, world trade dropped nearly 70%.

As outright trade wars are very uncommon in economic history and trade spats far more frequent, we must be realistic however that these types of negotiations certainly cause business decision makers to pause. In absence of certainty and a clear map, multinational companies will have to wait until the smoke clears before they make decisive capital investment decisions. Unlike the Tax Cuts and Jobs Act of 2017 that provided business with a sense of optimism and clarity, current trade policy will likely cause the global economy to pause a bit until there is a more definitive sense as to next steps.

Despite glowing Q1 corporate earnings reports and projections of very strong earnings results for the full year of 2018, skeptical investors have become far more cautious as to what they are willing to pay for those future earnings. We however are hopeful and optimistic that more beneficial bilateral trade treaties are a by-product of the unconventional negotiating tactics pursued by the current administration. That development, in tandem with continued economic global expansion, would be the ideal outcome for U.S. financial markets.

**LEAH L. WATKINS, Client Services Associate**


Leah Watkins brings nearly 15 years of experience in the financial industry to her role at DVI, and since joining us in early 2018 has quickly become a valuable asset to the firm. Her experience in office administration and operational processes are of vital importance to the firm, and her fresh ideas and a willingness to take on projects has already resulted in a number of improvements in efficiency and productivity. In addition to her industry experience, she has also been a licensed insurance producer in life, health, property & casualty and long-term care.

Hired originally as a Front Office Associate, Leah was recently promoted to Client Services Associate where she will play an important role in helping to manage client activities, operational workflow and database support. As a member of the Client Services team, she is actively involved in the delivery of service to our clients and contributes to the overall success of the firm by performing a wide variety of operational and administrative duties.

When she's not in the office, Leah and her husband, Chris, keep busy with their two young boys, Lane and Jase.