

OUTLOOK

ANNUAL INSIGHTS

DVI
DAVID VAUGHAN INVESTMENTS

BE THE TRUSTED STRATEGIC ADVISOR TO OUR CLIENTS



Will Williams
Chairman, President & CEO



Brian Christensen, CFA
Senior Vice President & CIO

Building a sustainable business has never been theater to us. In other words, saying things that give the impression that the firm is well intentioned about building a long-term franchise, but never executing on those ideas. As evidenced by the strategic initiatives we have undertaken over the past ten years, DVI is serious about creating a firm "Built to Last." We recognize it is far easier to kick the can down the road than disrupt the status quo, but our duty of loyalty to our clients extends far beyond just doing the right thing. It is personal. Success for us is defined by creating a firm that is uniquely positioned to serve our clients' needs well into the future.

Will Williams *Brian Christensen*

2018 MILESTONES

■ The transformation of DVI's professional practice continues to move forward. Once known exclusively for our expertise in manufacturing low risk investment strategies utilizing individual securities, we are increasingly gaining traction as a thought leader on behalf of our clients. DVI has developed staff resources to provide insight and problem solving on a wide range of complex financial issues.

■ Our human capital initiatives were front and center for most of the year. We added five associates to our team; the most staff additions in our history! These new hires will be targeted towards building additional capacity and capabilities. We wish to be proactive in our planning, building adequate redundancy in anticipation of future staff retirements. DVI continues to emphasize career development plans for all associates, but has also identified the need for a

formal mentoring program for select members of our leadership team.

■ The partnership with Morton Community Bank (MCB) and our engagement with MCB Trust & Wealth Management completed its first full year of operation. On both sides of the transaction, there is a greater understanding of the advantages of being "Independently United," marching forward as two successful private financial institutions. However, there is also a growing awareness of strategic opportunities best exploited by the partnership working together. We are convinced that under these circumstances we can truly move the needle on behalf of our clients.

INVESTMENT STRATEGY:

Lessons Learned

■ 2018 does not represent the new normal, it is simply normal. Market volatility in 2017 was an anomaly, likely never to be seen again. The volatility and market correction that we experienced last year was statistically in keeping with the long-term averages. According to research performed by Davis Advisors, roughly a twenty percent correction in the equity market occurs every 635 days. So rather than abandoning strategies that embrace risk management as a core attribute, more attention should be placed on understanding portfolio level risk.

■ Tax efficiency flies under the radar screen until April. DVI has historically embraced strategies that enable a significant percentage of pre-tax investment gain to be retained on a post-tax basis. Some researchers would suggest that managing an all equity portfolio that embraces tax optimization can annually add as much as 1% a year in positive relative return versus a traditionally managed portfolio.¹ In 2018, many investors were shocked by the large capital gains, either realized or distributed, from various equity strategies. Each circumstance is different, but DVI will not lose sight of the importance of tax minimization.

¹ Capital Sigma:
The Sources of Advisor-Created Value (2015)

2019 STRATEGIC PRIORITIES

Part of the DNA of our management team is an ongoing restlessness that we can and must do better. As we identified our top strategic priorities for the year, it really came down to a handful of simple concepts. We must embrace a greater level of accountability in everything that we do and do a better job of effectively communicating to both our colleagues and to our external stakeholders. We are also blessed with some wonderful business opportunities in both the Florida marketplace and with our new partnership with MCB Trust & Wealth Management. In both instances, we are excited about DVI's prospects for future growth, but recognize the importance of executing an incremental business plan that does not impede our ability to serve our existing clients.



The Best Path Forward

After over forty years serving as a Registered Investment Advisor, one would think that DVI would have confronted and solved the myriad of challenges that face management teams in building and sustaining an asset management firm. Unfortunately, that couldn't be further from the truth. Each year, we learn from our mistakes and hopefully apply that experience to the host of problems we will face in the future. The one constant in this process is our unwavering commitment to our clients and the knowledge that our sole focus is their best interest.



CLIENT FOCUS:

The Transition from the Accumulation Phase to the Distribution Phase

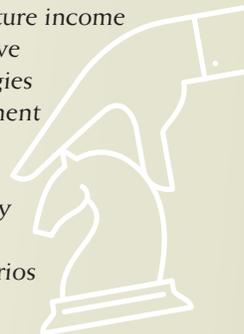
Wall Street in general has always been enamored with the investment side of the business. Their idea of product development always seemed to be more about them and their short-term economic interests rather than providing clients with thoughtful solutions to pressing financial needs.

Increasingly we find our clients challenged by the daunting task of trying to determine "how much is enough?" The mechanics behind income replacement are well documented, but the tools and the practical application of the steps along the way can be overwhelming to the family who is beginning to approach retirement age. At DVI we are increasingly challenging ourselves to create the impactful resources that our clients need to navigate this once in a lifetime transition. Our goal is straightforward; our client's financial peace of mind.



Financial Planning

Over the years, we have assembled a team of six investment professionals that have all earned the Certified Financial Planner (CFP®) certification. We have armed these professionals with state-of-the-art software that enables them to assist our clients with 1) the formation of a comprehensive balance sheet, 2) the creation of future cashflow scenarios, 3) an understanding of the impact of taxation on future income distributions and 4) the objective evaluation of investment strategies and the sustainability of investment assets under various distribution scenarios. We do not represent that we have a crystal ball, but by incorporating reasonable assumptions we can model scenarios that help guide prudent decision-making by our clients.



DVI Client Portal

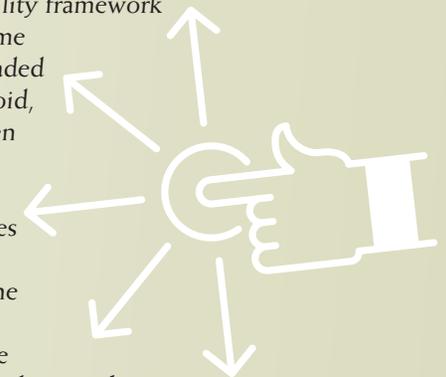
The management and consolidation of financial information is becoming increasingly important to clients as they strive to make sense out of all the moving parts of their financial lives. DVI began to offer a Client Portal (a cloud based solution) a number of years ago to allow clients access to not only DVI-directed assets, but financial assets held away as well. Helping to facilitate this account aggregation provides our clients the ability to track and organize their financial affairs all within one simple solution.



Investment Strategies

As our clients enter the "Distribution Phase," it is important to manage the liquidity needs that support the systematic (monthly/quarterly) distribution of funds. If there are required minimum distribution (RMDs) amounts from retirement plans, we want to be proactive as to the timing and dollar amount of those future needs. DVI has incorporated an asset/liability framework with individual fixed income securities and exchange traded funds to ensure that we avoid, if possible, market risk when accessing needed liquidity.

When a DVI client faces a major life transition, like retirement, we want to be the first call. It is our duty to continue to develop both the human capital and financial solutions that transform complexity into simplicity.



KEY FIRM STATISTICS¹

Total Assets under Advisement²

\$2,750,177,933

Total Discretionary Assets under Management

\$2,428,499,008

Average Discretionary Client Size

\$2,524,427

Number of Client Relationships

981

Number of DVI Associates

32

¹ AS OF 12/31/2018

² DISCRETIONARY PLUS DVI CONSULTING GROUP ASSETS

DVI

DAVID VAUGHAN INVESTMENTS

800.332.5944 | www.DVIinc.com | Peoria, IL | Winter Park, FL

Quiet Quality

NUMBER OF CLIENTS

2018 | **981**



2017 | **885**



2016 | **805**



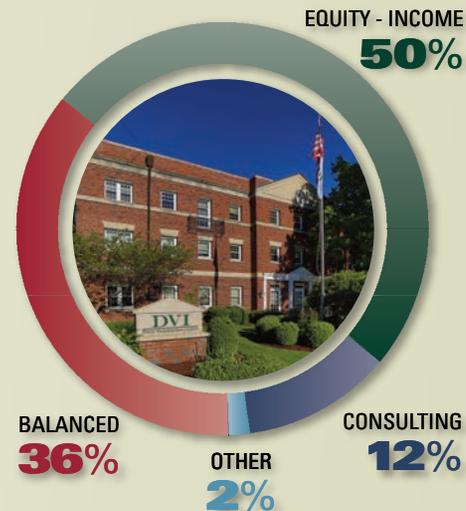
2015 | **767**



2014 | **716**



INVESTMENT STRATEGY MIX



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Senior Vice President & CIO

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