FALL 2023 | VOL. 31 | NO. 4
QUARTERLY PERSPECTIVE

TAKING A STEP BACK

by Will Williams
Chairman, President & CEO

Market strategists often remark that you don't know where you are going until you know where you have been. Over the past two years, the financial world has taken a dramatic U-turn on the interest rate front. We have moved from one extreme position to another. In the post-pandemic environment, "lower for longer" was viewed as the prudent and wise approach. The Federal Reserve flooded the system with liquidity, targeting a Fed Funds rate of nearly zero. For almost two years, that approach remained the status quo, despite the growing evidence that the green shoots of inflation were popping up everywhere. As year-over-year inflation measures approached 9%, the Federal Reserve finally flipped their monetary policy switch in March of 2022 and began a Fed tightening cycle that continues to this day.

As depicted below, the dramatic nature of this policy shift is without historic precedent. Because we began with such an extremely low base rate, the percentage change is hard to get your head around. As one example, the Fed Funds Target rate has increased by 2100% in the past two years. Even US Treasury 5-year note interest rates have increased by over 350%. In many instances, investors have not experienced an absolute interest rate environment such as this in nearly two decades. On a relative basis, a US Treasury 5-year note rate of less than 5% would be viewed as normal or low in the context of interest rates dating back to the 1970s. However, having been so far removed from that type of rate environment for so long, it feels like what we are experiencing today is quite extraordinary.

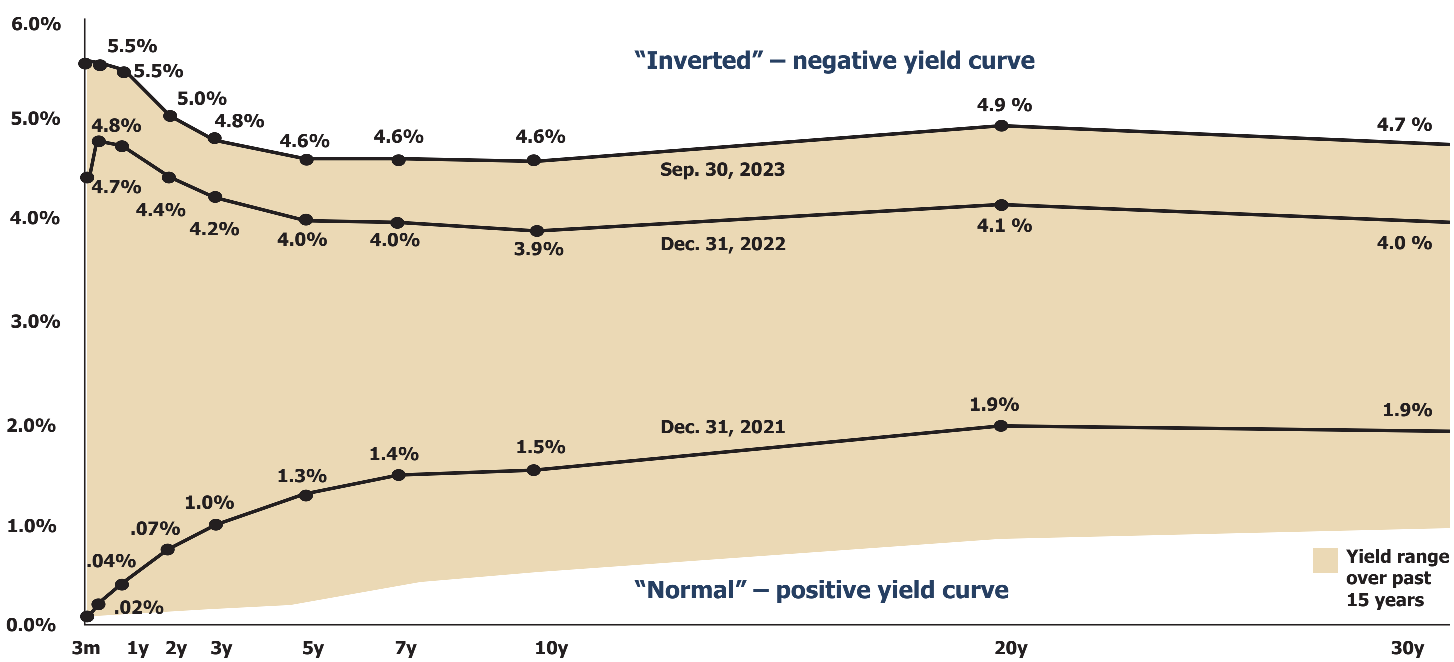
Change in Interest Rates

Key Interest Rates (Yields)	Highest Rate Since	9/30 2023	9/30 2022	9/30 2021	% Change vs 9/30/2021
Fed Funds Target Rate	2/28/2001	5.50%	3.25%	0.25%	2100.00%
US Prime Rate	2/28/2001	8.50%	6.25%	3.25%	161.54%
6 Month T-Bill	12/29/2000	5.55%	3.79%	0.05%	11000.00%
2 Year Treasury	6/30/2006	5.05%	4.20%	0.29%	1641.38%
5 Year Treasury	12/29/2006	4.61%	4.04%	0.99%	365.66%
10 Year Treasury	9/28/2007	4.58%	3.80%	1.53%	199.35%
30-yr Fixed Mortage	12/29/2000	7.31%	6.70%	3.01%	142.86%

Source: Factset

Often, when the Federal Reserve adopts a restrictive monetary policy, the normal structure of interest rates inverts. Under normal conditions, short-term interest rates are lower than intermediate- or long-term maturity securities because their rates reflect a future risk premium. When the Fed attempts to put the brakes on the economy, short-term rates exceed long-term rates as investors view the Fed rate-hiking cycle as temporary and believe that inflation will moderate. As illustrated in the following table, in five of the last seven rate-hike cycles, we have experienced an inverted yield curve:

U.S. Treasury Yield Curves



Source: JP Morgan Asset Management

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In Dividends We Trust

by Brian Christensen, CFA®
Senior Vice President & CIO

Since DVI's inception in 1977, common stock dividends have been the foundation of our investment philosophy and process. Big David often "pounded the table" about the power of investing in companies with long histories of stocks not only paying a dividend, but also, perhaps more importantly, increasing their dividend annually. DVI's investment research process regularly validates the relevance of this fundamental principle amidst the ever-changing market environment.

As reflected in the table below, not only do dividend-paying and dividend-growing stocks outperform non-payers and non-growers, but they also exhibit lower volatility as measured by beta and standard deviation.

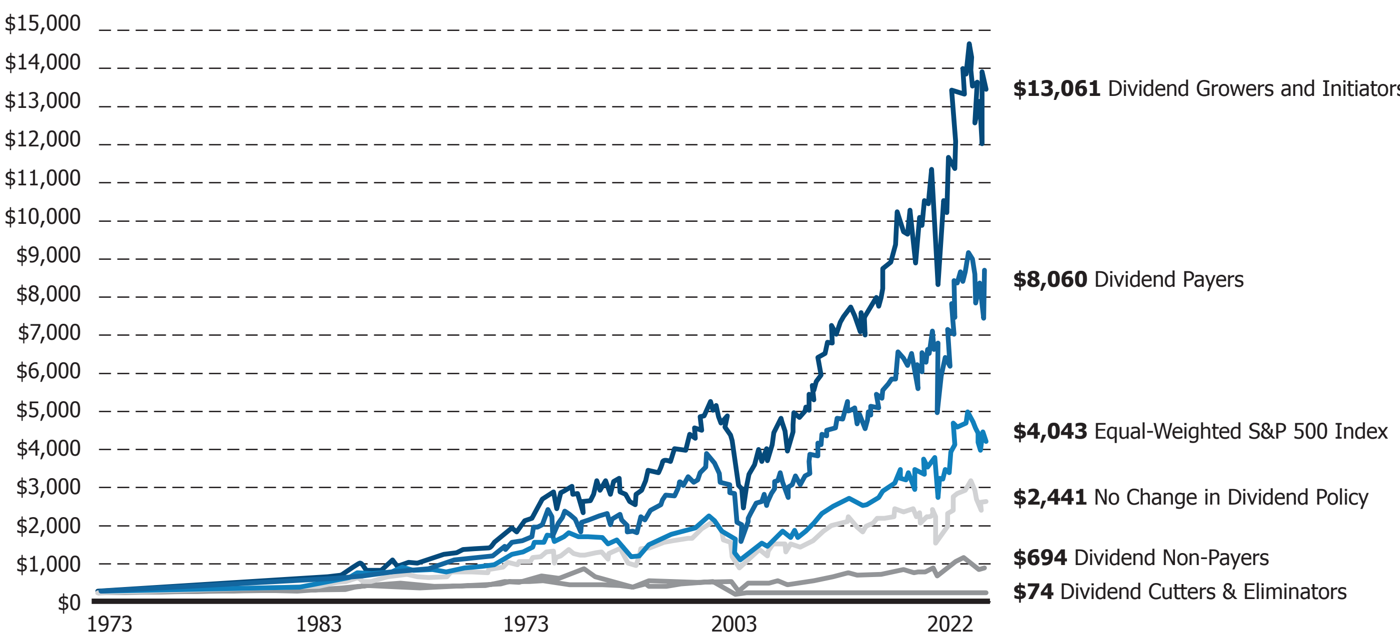
Average Annual Returns and Volatility by Dividend Policy
S&P 500 Index 1973-2022

	Returns	Beta	Standard Deviation
Dividend Growers & Initiators	10.24%	0.88	16.15%
Dividend Payers	9.18%	0.94	16.90%
No Change in Dividend Policy	6.60%	1.01	18.55%
Dividend Non-Payers	-0.60%	1.22	25.04%
Dividend Cutters & Eliminators	3.95%	1.18	22.17%
Equal-Weighted S&P 500 Index	7.68%	1.00	17.76%

Data Sources: Ned Davis Research and Hartford Funds, 12/22.

Unlike most bonds and other fixed-income investments that pay a pre-set interest rate, a stock's dividend can and often does rise with inflation. A study performed by Fidelity Investments revealed historical patterns and showed that during periods of high inflation, stocks that increased their dividends the greatest outperformed the broad market. Companies that can raise prices for their products and services generally experience growth in cash flows to keep up with inflation. It is this cash flow growth that supports dividends. A rising stream of investment income from a growing dividend undoubtedly counters inflation.

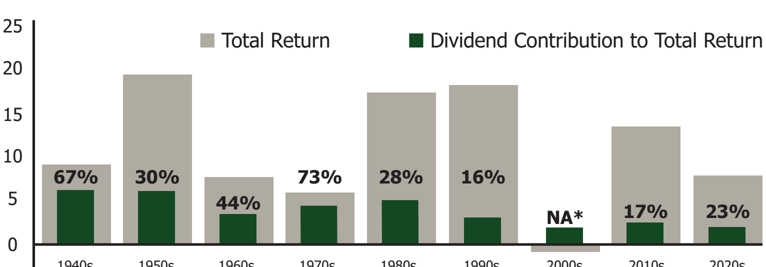
Returns of S&P 500 Index Stocks by Dividend Policy: Growth of $100 (1973–2022)



Data Sources: Ned Davis Research and Hartford Funds, 12/22.

Total return equals the sum of the change in price plus an investment's earned income. From 1930-2022, the dividend contribution represented 41% of total return for the S&P 500 Index. The chart below presents a decade-by-decade review:

Dividend Contribution to Total Return by Decade
S&P 500 Index Annualized Total Return by Decade (%)

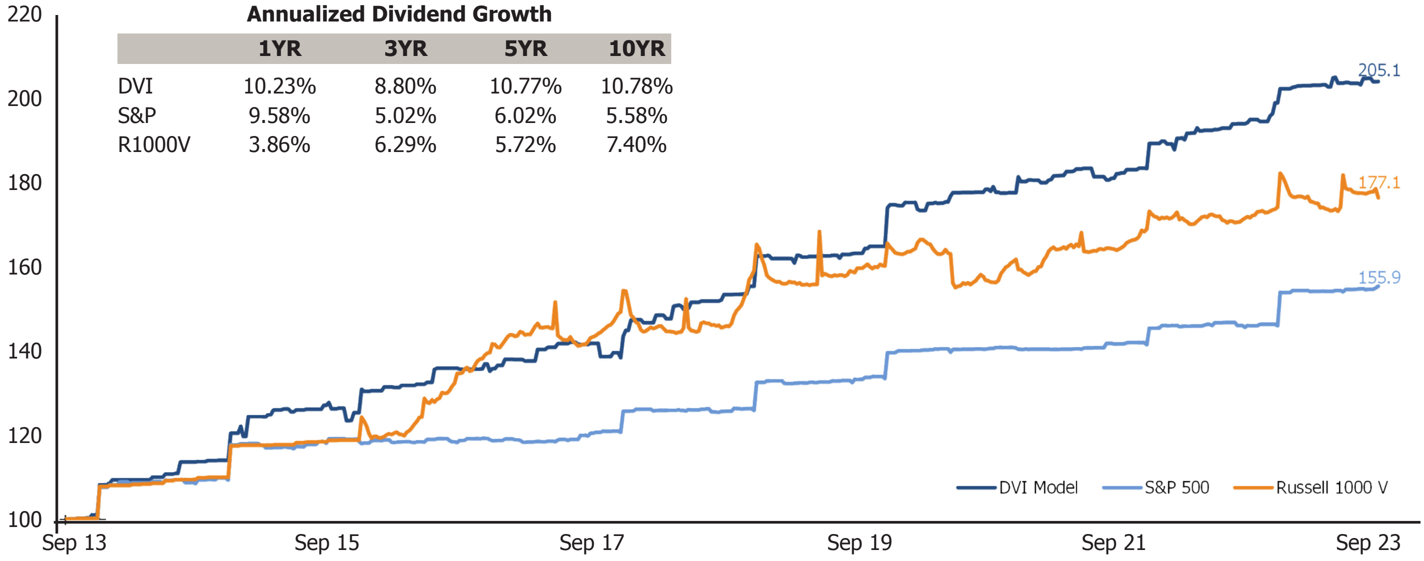


Total return for the S&P 500 Index was negative for the 2000s. Dividends provided a 1.8% annualized return over the decade. Data Sources: Morningstar and Hartford Funds,12/22.

So, in our efforts to leverage the benefits of dividends in our investment process, how has DVI performed? During the past ten years, annualized dividend growth in the DVI Model Portfolio has been 10.78%, far surpassing the growth rates of the S&P 500 (5.58%) and the Russell 1000 Value (7.40%) indices. Further, in the DVI Model Portfolio, the percentage of companies increasing dividends annually has averaged 90% compared to the S&P 500 (50%) and the Russell 1000 Value (34%).

Cumulative Dividend Growth - DVI Model vs S&P and Russell 1000 Value

10yr Cumulative Dividend Growth



Annualized Dividend Growth

	1YR	3YR	5YR	10YR
DVI	10.23%	8.80%	10.77%	10.78%
S&P	9.58%	5.02%	6.02%	5.58%
R1000V	3.86%	6.29%	5.72%	7.40%

Percentage of Companies with an Increasing Dividend

All Constituents	Sep 14	Sep 15	Sep 16	Sep 17	Sep 18	Sep 19	Sep 20	Sep 21	Sep 22	Sep 23
DVI Model	91.5%	92.7%	91.6%	84.5%	92.7%	84.7%	98.7%	88.8%	81.9%	92.5%
S&P 500	51.1%	52.8%	52.3%	49.6%	48.3%	50.3%	50.6%	45.8%	46.5%	51.1%
Russell 1000 Value	28.7%	30.4%	33.2%	31.2%	33.0%	34.8%	36.4%	36.8%	37.1%	40.3%

IWD ETF is the proxy for Russell 1000 Value. Source: Factset

With the market focus on high-priced growth stocks for much of the past decade, dividend-paying stocks have been lost in the shuffle. But the power of dividends has not been lost—just recently overshadowed by shinier objects. Dividends continue to reduce portfolio volatility, hedge inflation, and contribute meaningfully to total return. The power of compounding dividend income continues to serve DVI clients well.

Inherited IRA Beneficiaries: Updates to Distribution Rules

by Jeffrey J. Hunizenga, CFP®, ChFC®
Director of Wealth Strategies

In December of 2019, Congress passed the SECURE (Setting Every Community Up for Retirement Enhancement) Act, which changed how retirement account money is passed down when the account holder dies. Before the Secure Act, beneficiaries could take out the money over their lifetime. However, the Secure Act stated that if the retirement account holder died in 2020 or later, beneficiaries typically needed to deplete the account within 10 years (by the end of the 10th year) following the account holder's death. The Secure Act also identified two groups of beneficiaries: eligible and non-eligible.

Eligible beneficiaries include spouses, children under 18, disabled and/or chronically ill individuals, and beneficiaries who are within 10 years of the deceased account holder's age. Though there are some case-by-case nuances, the Secure Act allows eligible beneficiaries to stretch the withdrawals based on their life expectancy.

Withdrawals for **non-eligible beneficiaries** (basically, everyone else) are where the most significant changes have occurred. Initially, it seemed like non-eligible beneficiaries could take distributions over a 10-year period without any annual required withdrawals. Then, in 2022, the IRS suggested that non-eligible beneficiaries might need to take annual withdrawals *if the deceased account holder had already begun their required minimum distributions (RMDs) before they died.* After receiving feedback, the IRS waived the required annual distributions for 2021 and 2022, with the understanding that final regulations would be published in 2023. In July, the IRS postponed the requirements once again, so no 2023 withdrawals are needed.

It is likely that starting in 2024, non-eligible beneficiaries will have to take annual withdrawals if:

- the account holder passed away in 2020 or later, and
- the account holder had begun required minimum distributions (RMDs) before their death.

Non-eligible beneficiaries will still need to deplete the account within 10 years (by the end of the 10th year) of the account holder's date of death. *If the retirement account holder died prior to beginning required minimum distributions (RMDs),* the account still must be entirely depleted within 10 years (by the end of the 10th year) of the account holder's date of death.

DVI will monitor the IRS's final rules, and we are committed to helping our clients follow the right distribution methods. If you have specific questions about your situation, please contact your Relationship Manager for assistance.

TAKING A STEP BACK *...continued*

Fed Rate Hikes: 1983-2023

Rate Hike Cycle	# of Rate Hikes	Duration # of months	Total Tightening	Peak Interest Rate	Yield Curve Inversion
3/31/1983 - 8/9/1984	7	17	3.00	11.50%	No
3/29/1988 - 5/16/1989	9	14	3.25	9.75%	Yes
2/4/1994 - 2/1/1995	7	12	3.00	6.00%	No
6/30/1999 - 5/16/2000	6	11	1.75	6.50%	Yes
6/30/2004 - 6/29/2006	17	24	4.25	5.25%	Yes
12/17/2015 - 12/20/2018	9	36	3.00	2.50%	Yes
3/17/2022 - **7/27/2023**	11	19	5.25	5.50%	Yes
AVERAGE	**9.43**	**19.00**	**3.36**		

Sources: Factset, Federal Reserve Board, JP Morgan Asset Management

Going Forward

If history is an accurate guide, the last fifty years of data would suggest that the Fed tends to overshoot during these tightening cycles. In fact, most inverted yield curves are followed by economic recessions. They eventually recognize the error in their ways and are forced to reverse course and begin to move their target rates lower. In most instances, common stock markets will bottom out during the worst of the interest rate increases and begin to climb a Wall of Worry as investors anticipate an economic recovery and a future rebound in corporate earnings.

Historically under these circumstances, a significant amount of the price recovery experienced by common stocks occurs within the first year beginning on the date of the final Fed rate hike. As you can see below, this return can be quite substantial and has averaged nearly 14% over the past seven rate-hike cycles. The economy has been incredibly resilient during the Fed's recent war on inflation, but the cracks in that foundation are beginning to appear. Now we just need confirmation that the July rate hike was the Fed's swan song.

Rate Hike Cycle	S&P 500 Last Hike	S&P 500 One Year Later	(Price Only) S&P 500 % Change
3/31/1983 - 8/9/1984	165.54	188.32	13.76%
3/29/1988 - 5/16/1989	315.28	354.00	12.28%
2/4/1994 - 2/1/1995	470.40	638.46	35.73%
6/30/1999 - 5/16/2000	1466.04	1284.99	-12.35%
6/30/2004 - 6/29/2006	1272.87	1503.35	18.11%
12/17/2015 - 12/20/2018	2467.42	3221.22	30.55%
3/17/2022 - **7/27-2023**	4537.41		
AVERAGE			**14.01%**

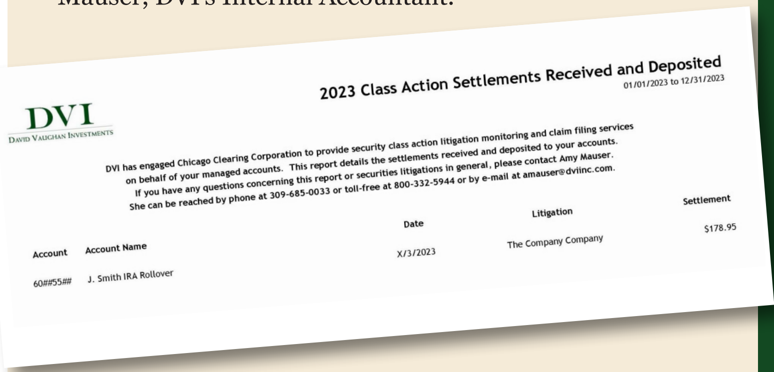
Sources: Factset

DVI ANCILLARY SERVICE REMINDER: SECURITIES LITIGATION CLAIMS

DVI engages Chicago Clearing Corp. (CCC) as a third-party administrator to assist in handling securities litigation claims for your managed accounts. This partnership ensures that the necessary forms are promptly filed and that subsequent settlement distributions are received from the settlement fund. DVI closely monitors the status of these payments and makes sure that the proceeds are appropriately deposited or mailed.

Even though managing these claims is a service that DVI provides, Charles Schwab is obligated to send the litigation notification directly to the client. Unfortunately, DVI is unable to suppress the mailing or emailing of these notifications when they impact your managed accounts.

If any of these distributions apply to your managed accounts, all relevant details regarding these activities will be included in your year-end 4th quarter DVI report package. Please also note that CCC now applies a 15% servicing charge to eligible settlements per SEC Rules. If you have any questions or require information regarding a specific litigation case, please call (309) 685-0033 and ask to speak with your Relationship Manager or with Amy Mauser, DVI's Internal Accountant.


2023 Class Action Settlements Received and Deposited

01/01/2023 to 12/31/2023

DVI
David Vaughan Investments

DVI has engaged Chicago Clearing Corporation to provide security class action litigation monitoring and claim filing services on behalf of your managed accounts. This report details the settlements received and deposited to your accounts. If you have any questions concerning this report or securities litigations in general, please contact Amy Mauser. She can be reached by phone at 309-685-0033 or toll-free at 800-332-5944 or by e-mail at amauser@dviinc.com.

Account	Account Name	Date	Litigation	Settlement
60##55##	J. Smith IRA Rollover	X/3/2023	The Company Company	$178.95

Illinois Estate Tax Discussions

During the Illinois 103rd General Assembly's Veto Session scheduled for later this month, legislators may discuss a potential increase in the state's $4 million estate tax exemption. DVI will monitor these upcoming sessions to identify possible impacts on our clients.

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