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QUARTERLY PERSPECTIVE

Staying Power

by Will Williams
Chairman, President & CEO

On April 8, it would have been next to impossible to predict that the market decline—almost 19% from its mid-February peak—would be fully erased in a mere 89 days. As it turns out, this explosive V-shaped rally marked the fastest stock market recovery in history. (See Chart 1.)

I often reflect on conversations with our firm's founder, David Vaughan, about how to manage through and survive periods of extreme market volatility. Beginning with the Crash of 1987, I experienced my share of market turmoil, but David's encyclopedic knowledge of market history always offered a wealth of guidance and a calming perspective.

First, he always reminded me that DVI was built as a "belt and suspenders" firm, always constructing equity portfolios with a focus on risk management and strong down-market performance. "We buy companies, not stocks," he would remind me, "with a history of meaningful competitive advantages and a proud tradition of paying ever-increasing dividends to their shareholders. They have staying power, and, as such, so shall we and our clients as we navigate these unpredictable economic storms."

Then, with a twinkle in his eye, David would share the story of Rip Van Winkle, emphasizing the emotional and economic benefits of occasionally falling asleep at the foot of a tree and waking up twenty years later. "You will avoid making emotionally charged decisions that you will regret over the long term," he would say. In today's overstimulated world of the internet, social media, and instantaneous communication, there is both merit and an advantage in being able to pause, reflect, and take deliberate aim before one shoots.

Throughout history, markets have always disdained uncertainty and embraced certainty. There has been plenty of water under the bridge since Liberation Day on April 2 when the Trump Administration rolled out its sweeping tariff plan. And more uncertainty may lie ahead as the 90-day freeze on reciprocal tariffs (country-specific tariff rates above the 10% baseline) is set to expire on July 9. In the meantime, the One Big Beautiful Bill (H.R.1) passed both chambers of Congress and was signed into law on July 4. In keeping with the theme of certainty, markets have responded positively to the extension of key tax policies enacted in the 2017 Tax Cuts and Jobs Act (TCJA), now set to continue beyond their prior sunset date of December 31, 2025.

If there is one theme that I do anticipate emerging in the second half of the year, it will be a concerted effort by both Congress and the Trump Administration to lower interest rates. Merrill Lynch recently reported that as of the end of May, interest expenditures on federal debt for FY 2025 stood at $674 billion, an increase of 8.5% over the prior year. Debt service is now nearly equal to Medicare spending and has surpassed combined expenditures for Defense and Homeland Security. With $36 trillion in federal debt, the FOMC monetary policy has ramifications beyond its dual mandate of managing inflation and the nation's unemployment rate. If one could dial the interest rate clock back to 2021 when rates were considerably lower, interest expenditures would be cut in half.

Chart 1: Market Declines and Recoveries

	Peak Date	Trough Date	# of Trading Days Peak to Trough	%Decline	Break Even %Recovery	Days to Recovery
> 15% Market Correction	4/23/2010	7/2/2010	70	-16.0%	19.0%	95
	2/19/2025	**4/8/2025**	**33**	**-18.9%**	**23.3%**	**89**
	7/17/1998	8/31/1998	45	-19.3%	23.9%	90
	4/29/2011	10/3/2011	157	-19.4%	24.1%	285
	9/20/2018	12/24/2018	95	-19.4%	24.1%	120
	7/16/1990	10/11/1990	87	-19.9%	24.8%	315
> 20% Bear Market	7/15/1957	10/22/1957	99	-20.7%	26.1%	180
	2/9/1966	10/7/1966	241	-21.9%	28.0%	285
	1/3/2022	10/12/2022	282	-25.4%	34.0%	294
	11/28/1980	8/12/1982	622	-27.1%	37.2%	520
	12/12/1962	6/26/1962	196	-28.0%	38.9%	420
	8/25/1987	12/4/1987	101	-33.5%	50.4%	580
	2/19/2020	**3/23/2020**	**33**	**-33.9%**	**51.3%**	**97**
	11/29/1968	5/26/1970	543	-36.1%	56.5%	890
	1/11/1973	10/3/1974	630	-48.2%	93.1%	1260
	3/24/2000	10/9/2002	929	-49.1%	96.5%	1650
	10/9/2007	3/9/2009	517	-56.8%	131.5%	1400

Source: Perplexity ProAI, verified by FactSet

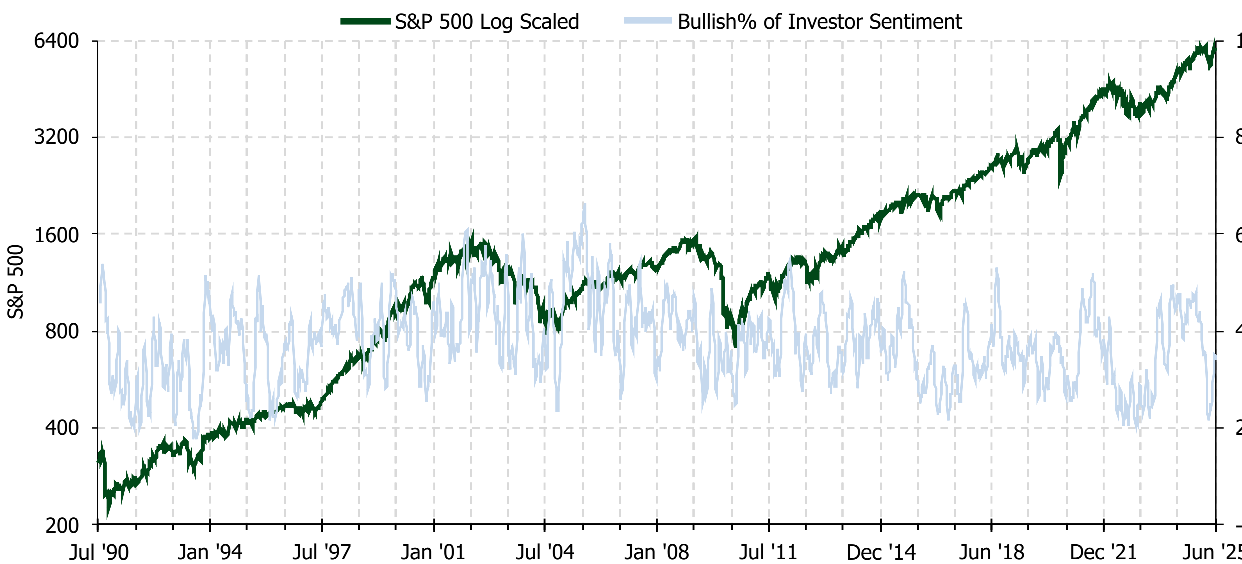
WHAT COULD GO RIGHT

by Brian Christensen, CFA
Senior Vice President & CIO

With a backdrop of geopolitical and trade tensions, the first half of 2025 proved to be a volatile stretch for financial markets. News headlines promoting "Ominous Signals," "Mounting Recession Fears," and "Unease over Tariffs" compete for space with the daily onslaught of negative political rhetoric. It's no wonder investor sentiment measures show high levels of uncertainty.

The American Association of Individual Investors (AAII) Investor Sentiment Survey dates back to July 1987. The survey is conducted weekly and measures investor sentiment for the next six months. In the last 12 months, we've seen the indicator swing from a Bullish rating (52.7%) in mid-July 2024, to extreme Bearishness (61.9%) in April 2025, to now a fairly Neutral position of 40.3%. Over time, the survey has shown a balanced distribution: 37.6% Bullish, 31.2% Neutral, and 31.2% Bearish. It is most commonly viewed as a contrarian indicator of future market direction. Chart 1 underscores this pattern, showing high levels of bearishness at market lows and significant bullishness at market tops.

Chart 1: S&P 500 vs Bullish % of Sentiment



Source: American Association of Individual Investors

But what could go right? The 28th Annual Price Waterhouse Coopers (PwC) Global CEO Survey showed that 60% of CEOs surveyed expect global growth to improve in the 12 months ahead, up from 38% in 2024 and 18% in 2023. Additionally, more than twice as many CEOs expect to increase headcount as those that expect to reduce it.

Factors supporting the PwC CEO survey results include a resilient labor market, monetary policy tailwinds, U.S. economic strength, and continued optimism around future investment returns.

The U.S. labor market continues to add jobs, with recent reports showing a nonfarm payroll increase of 139,000 in May, and an unemployment rate holding steady around 4.2%, which is considered "full employment." This stability reassures investors that the economy is not slipping into recession. Further, wages have risen by about 3.9% annually, outpacing inflation targets. Higher wages fuel consumer spending, which accounts for roughly 70% of U.S. GDP growth. Strong consumer demand underpins corporate revenues and earnings, ultimately driving stock market performance.

Anticipated monetary easing and potential interest rate cuts are expected to support both equities and high-quality fixed income, despite global economic uncertainties. This outlook helps to buoy investor confidence. Current market expectations are for two cuts in the Federal Funds target rate before the end of 2025.

The U.S. economy continues to show strength. The Atlanta Federal Reserve GDPNow shows a 2.5% growth estimate for the second quarter. Projections for the second half of the year point to an annual rate of 1.4% - 2.0%. Potential interest rate cuts and deregulation would be positive catalysts.

Finally, 10-year capital market assumptions, while lower than recent actual results, remain attractive. Forecasts for U.S. Equities average approximately 6%, and U.S. Fixed Income at 5%. Recent stock market returns have exceeded the 10% long-term historical average, which has prompted forecasters to temper forward estimates accordingly.

I can hear Big David now, singing the classic hit "Ac-Cent-Tchu-Ate the Positive" along with Bing Crosby and the Andrews Sisters:

You've got to ac-cent-tchu-ate the positive
E-lim-i-nate the negative
Latch on to the affirmative
Don't mess with Mr. In-Between.

You've got to spread joy up to the maximum
Bring gloom down to the minimum
Have faith, or pandemonium
Liable to walk upon the scene.

Developing Next Generation Leaders: Securing DVI's Future

by
Beth Salmon
Vice President, Operations

Alfredo Risi
Chief Operating Officer

At David Vaughan Investments, great leadership is not left to chance—it is built deliberately, invested in consistently, and nurtured with care.

DVI's approach to leadership development is grounded in a core belief: the most effective leaders often grow from within. They evolve alongside the firm, internalizing its values, living its culture, and gaining firsthand experience that prepares them to guide DVI through the next fifty years with clarity and conviction.

"DVI Next Gen has offered me the opportunity to step outside Portfolio Management and lead initiatives that influence DVI's long-term trajectory. That autonomy allowed me to contribute more broadly, deepening my insight into how the firm operates and sharpening my ability to think strategically. I'm grateful for the program and DVI leadership's ongoing pursuit of a firm built to last."

—Glenn Maxey,
Senior Portfolio Manager & Partner

Empowering Emerging Leaders

To support this belief, DVI has implemented the Next Gen Leadership Program, a multi-year development program designed to equip Associates with the tools, experience, and mentorship necessary for long-term leadership success. The program builds on the strong foundation all DVI Associates receive: clearly defined roles, structured career paths, purposeful goal setting, and consistent, constructive performance reviews.

Next Gen takes this further by nurturing leadership from within, immersing participants in the key practices and principles that distinguish top industry leaders.

As Associates advance through the program, they are challenged to broaden their impact and expand their skills—taking on committee assignments, leading cross-functional projects, and participating in specialized training sessions focused on topics like emotional intelligence, visionary thinking, and effective communication. Ongoing engagement with the Board of Managers and senior leadership—through strategic briefings, feedback sessions, and informal conversations—fosters mentorship, transparency, and alignment. These interactions help emerging leaders build the confidence and capability needed to help guide DVI into its next chapter.

Responsive Refinement

Continuous improvement has long been a hallmark of DVI's success, and the leadership development program reflects that ethos. Actionable feedback from participants and senior leaders, combined with insights from the firm's talent management team, informs ongoing enhancements to the program's design and execution.

In 2025, for example, DVI introduced 360-degree evaluations in select cases, enabling feedback from managers, peers, and direct reports. This holistic perspective supports the creation of targeted development plans that drive meaningful growth for both the Associate and the firm.

"This program expanded my perspective beyond day-to-day responsibilities and gave me a deeper understanding of how DVI operates. I've had the chance to lead initiatives that blend strategic project management with cross-functional teamwork—efforts that help spark innovation and support DVI's long-term vision."

—Jeremy Hanshaw, Senior IT Manager

"My participation in DVI Next Gen has strengthened my ability to connect strategic priorities with the needs of our clients, reinforcing my drive to deliver lasting results. Through these focused leadership experiences, I've been able to apply my background to enhancing client experiences. One of the most valuable aspects has been presenting to Senior Leaders and the Board—receiving direct feedback and contributing to the broader conversation about execution and impact."

—Mike Flaherty,
Senior Relationship Manager & Associate Partner

Meaningful Progress

The results of our leadership development efforts are both measurable and meaningful. Over the past three years, DVI has promoted two Associates to Partner and two to Associate Partner. Yet beyond these milestones, an even more important development is evident: the emergence of a new generation of leaders who embody shared values, demonstrate a strong sense of purpose, and are deeply aligned with DVI's long-term vision and client-first philosophy.

Leadership at DVI is not defined by title but by mindset. With a strong foundation in place and a clear path forward, we are confident that our emerging leaders are prepared to guide the organization into the future with integrity and conviction. Their continued growth ensures that the legacy of Quiet Quality endures—and that DVI remains a firm built to last.

Read more about Leadership in Action on page 4

Leadership in Action:
Inside DVI's Next Gen

What does leadership look like in practice? Below are a few strategic projects that demonstrate how DVI Associates are advancing the firm's mission and commitment to excellence.

Customer Relationship Management (CRM) Implementation

STATUS: Complete
FOCUS: Client Experience, Operations, Efficiency

After a strategic review of the firm's technology platforms, DVI selected Glenn Maxey to lead the multi-year implementation of a new CRM system. The project involved a firmwide overhaul to enhance data integrity, streamline workflows, and increase user adoption. The result: improved operational efficiency and more seamless client interactions.

Artificial Intelligence (AI) Pilot Program

STATUS: In Progress
FOCUS: Operational Efficiency, Cybersecurity

Jeremy Hanshaw is leading a pilot program to explore the use of AI in firmwide processes and department-level workflows. The initiative aims to boost operational efficiency while upholding DVI's standards for security, integrity, and trust.

Advisor-Client Transition Strategy

STATUS: Ongoing
FOCUS: Client Experience, Relationship Management, Legacy & Values Alignment

Mike Flaherty is guiding an advisor transition project to ensure continuity and trust across advisor-client relationships. This work supports DVI's commitment to relationship-driven service and prepares the firm for future growth and leadership succession.

Firmwide Strategic Vision (Three-Year Outlook)

STATUS: Looking Ahead
FOCUS: Strategic Planning, Operations, Growth

DVI's Next Gen leaders are collaborating with senior management on a cross-functional initiative to shape DVI's three-year strategic direction. They are analyzing industry trends and their impact, and defining our mission, vision, strengths, and areas for future growth. Their findings and recommendations will be shared with our Board, Partners, and Associates to ensure alignment and united momentum.

A Summary of Major Tax Provisions in the "One Big Beautiful Bill"

The federal budget reconciliation package passed by both chambers of Congress in early July and signed into law on July 4.

Individual Taxes

Key Provisions that would have expired at year end that are now permanent:

- **Individual Income Tax Brackets**
  Tax brackets originally established by the 2017 Tax Cuts and Jobs Act (TCJA) are now permanent. The rates of 10%, 12%, 22%, 32%, and 37% remain in effect, with the top 37% bracket applying to Married Filing Jointly (MFJ) income of $751,601 or more beginning in 2025.
- **Federal Estate and Gift Tax Exemption**
  Effective January 1, 2026, exception will be permanently set at $15 million per individual (or $30 million per married couple).
- **Enhanced Standard Deduction**
  Introduced by the TCJA, the deduction will be increased in 2025 to $15,750 for individual filers and $31,500 for married joint filers.
- **Mortgage Interest Deduction**
  Continues to apply to loans up to $750,000 that are secured by a primary or secondary residence.

State and Local Tax (SALT) Deduction Cap

2024: $10,000

2025: Increased to $40,000 with a 1% increase annually through 2029.

- The increased deduction will be phased out for taxpayers with Modified Adjusted Gross Income (MAGI) over $500,000 (see below).
- The SALT deduction cap is scheduled to revert to $10,000 in 2030.

MAGI	30% of Excess	SALT Deduction Cap
$500,000		$40,000
$550,000	($15,000)	$25,000
$600,000+	($30,000)	$10,000

Pass-Through Entity Tax (PET) Workaround

2024 Pass-through business owners may pay state tax liabilities attributable to their business activity directly to the state, allowing them to bypass the $10,000 SALT deduction cap.

2025: The new legislation preserves this tax strategy.

Impact: 36 states, in one form or another, currently allow PET workarounds.

Business Taxes

- **Qualified Business Income (QBI) Deduction**
  The 20% deduction under Section 199A is maintained at 20%.
- **Research and Development (R&D) Expenses**
  Businesses may now immediately deduct domestic R&D expenses in the year incurred, reversing the prior requirement to amortize R&D expenses over five years.
- **First Year Bonus Depreciation**
  Full 100% bonus depreciation is restored and made permanent for qualified tangible property acquired after January 19, 2025. The current law reduced the eligible amount for immediate depreciation to 40% of the cost.
- **Section 179 Expensing**
  The maximum allowable Section 179 deduction is increased to $2.5 million, nearly doubling the current maximum deduction amount.

DVI
David Vaughan Investments

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