Donaldson CAPITAL MANAGEMENT

FALL 2024

RISING DIVIDEND REPORT

Highlights from the **Investment Policy Committee**

1. **Elections historically have a limited impact on stock performance.** Despite political uncertainty, research shows that staying invested in the market, even during election years, generally yields better long-term results.

2. **The political party in power has minimal influence on stock market returns.** Since 1853, stock market performance has been nearly identical under Democratic and Republican leadership.

3. **Market predictions about elections are often incorrect.** Many forecasts about economic collapses or sector declines, such as healthcare after the Affordable Care Act, have proved to be wrong.

4. **Markets anticipate election outcomes before they happen.** The S&P 500 has predicted the election winner 87% of the time since 1928, adjusting for expected policies prior to results.

5. **Uncertainty impacts markets more than election results.** Stocks tend to perform better when incumbents win, as markets dislike the unpredictability of new leadership.

Read the IPC Letter on page 3

A Note From Our Founder

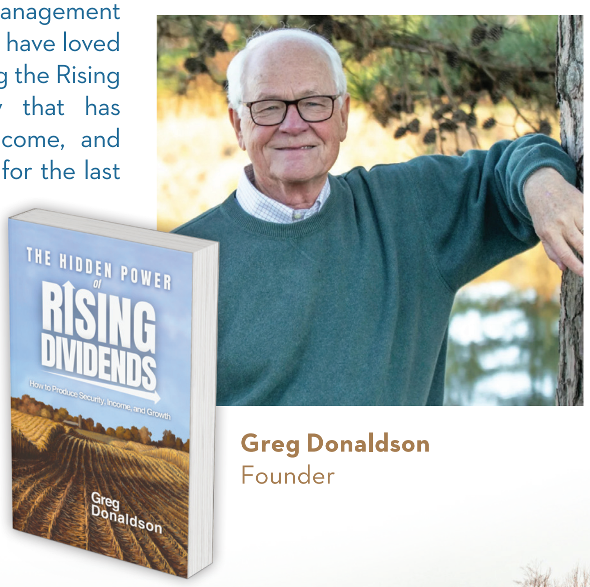
In early 2008, a publishing house contacted me about writing a book on dividend investing. They knew my work from a blog I had written for many years and offered a generous signing bonus for a 125-page book on my dividend strategy. It all sounded great—until they informed me there was a 30-day deadline. With the U.S. banking system in crisis, later known as the Great Recession, I had no time to write a book.

By late 2009, with the crisis diminishing, I reviewed my old blogs and investment letters and pieced together a basic dividend book. I asked my son, Nick, to help me edit it for clarity and insight. Nick suggested that the book focused too much on the "how-tos" of dividend investing. He believed it would be more engaging if I added the backstory of how I discovered these principles. His idea made sense, so I included the journey and the challenges I faced while developing a dividend strategy for all seasons.

After the rewrite, I asked DCM board chair Mike Hull for his feedback. He had another great insight—in telling the Rising Dividend™ story, I was also describing the powerful engine that drove DCM asset and client growth since 2000. Mike suggested I delve into how the strategy sharpened our focus on how to provide retirement income to the millions of baby boomers. He also recommended sharing that the idea of dividend investing was brought to us by a client, Dr. Joseph Begley.

The Hidden Power of Rising Dividends: How to Produce Security, Income, and Growth was finally published this summer. It tells the story of the wonderful people who have joined Donaldson Capital Management either as clients or employees. I have loved building the firm and developing the Rising Dividend investment strategy that has aimed to provide security, income, and growth to thousands of clients for the last 30 years.

Greg Donaldson



Greg Donaldson
Founder

Retirement Redefined
Philanthropy in the Philippines

I met Elmer 20 years ago at Mead Johnson in Medical Sales. He and his wife, Pilar, are remarkable people with big hearts and big smiles. They both honor their Filipino heritage by helping others in diverse ways. Since retiring, Elmer has been coaching young people on personal finance and substitute teaching at a local school. Pilar spent years helping Filipino women move to the U.S. and become nurses. Currently residing in Minnesota, their love for the outdoors, national parks, and long road trips to visit friends across the country is matched only by their generous hearts and commitment to helping communities in need. Their story is a testament to the power of hard work, discipline, and a passion for making a difference.
– Blake Alsman, CFP®, Senior Investment Advisor

For many retirees, travel is more than just a hobby—it's a gateway to new adventures, cultures, and friendships. Elmer and Pilar Gavino have embraced this spirit wholeheartedly, and their journey to one particular destination turned into something truly extraordinary.

Their travels took them to Ivana, a quaint town of 1,568 people nestled in the Batanes Islands, north of mainland Philippines. What began as a simple tourist visit developed into a deep, lasting bond with the entire community.

Last year, during one of their visits, Elmer and Pilar discovered the challenges faced by the local elementary school, which serves 152 students. The school faced a significant challenge: a lack of internet access, forcing its 16 teachers and three staff members to undertake 30- to 40-minute commutes to the capital city for administrative tasks and educational resources.

Moved by the school's plight, Elmer and Pilar, along with Elmer's colleague, Chiara Millikan, a teacher from a Catholic school in Minnesota, resolved to make a difference. They donated Starlink, a satellite network developed by SpaceX that aims to provide high-speed internet to underserved and remote areas around the world, transforming the school's connectivity.

With Starlink in place, the teachers and staff no longer had to endure long travels for internet access. More importantly, they could download engaging video lessons and other learning materials directly at the school. This new resource also enabled teachers to access online courses in pursuit of their graduate studies, supporting their professional development.

For the students, the impact was immediate and profound, revolutionizing their learning experience. Online videos made learning more interactive and understandable, and the technology became an integral part of their education. They even incorporated Starlink into their technology classes, opening the door to a new world of possibilities.

Elmer and Pilar's genuine care for the people of Ivana did not go unnoticed. The town embraced them wholeheartedly, accepting them as honorary "Ivatans," a testament to the connection they had created. For the Gavinos, travel in retirement became more than just a gateway to new adventures—it became a chance to make a meaningful impact in the world.

Elmer and Pilar Gavino (third and fourth from right) donating Starlink to Ivana Elementary School

Students at Ivana Elementary School in the Batanes Islands

Elections & Stocks

Six Lessons for 2024

– by Nathan Winklepleck

Most of us are familiar with the classic tortoise and hare fable. The hare, confident in his speed, races off and then decides to nap, assuming he has plenty of time to win. Meanwhile, the tortoise keeps a steady, measured pace. Ultimately, the tortoise crosses the finish line first, not because he was faster, but because he stayed the course and never let distractions take him off track.

This simple story offers a valuable lesson for investing, especially during periods of heightened uncertainty, like election seasons. Before we dig into the 2024 election cycle and its potential impacts on how we position your portfolio, we wanted to take a step back and look at the historical impact elections have had on stocks. Here are six lessons we can learn:

Lesson #1: Stocks usually go up

Research suggests that peoples' political opinions leak into investment decisions; Meeuwis (2019) found that Republicans increased their allocation to stocks following Trump's election, while Democrats sold stocks to buy cash and bonds. The opposite occurred when Obama was elected.[1]

In both cases, those changes to become more conservative were mistakes. If you had invested $10,000 in the S&P 500 at the end of 1960 and held through the end of 2015, you would have $1,894,374. If you had moved to cash during election years, you would have $1,136,820.

Stocks usually go up regardless of whether it's an election year; therefore, any time spent out of stocks becomes costly. From 1928 to 2019, stocks averaged 11.9% per year. In election years, stocks averaged ever-so-slightly less at 11.6%. In non-election years, stocks averaged 12%. We suggest that election years are *slightly* worse for stocks, but even that might be a stretch. For example, if we remove 2008, the results change substantially. In non-2008 election years, stocks did better than average—going up 13.9%.

[1] Meeuwis, Maarten, et al. "Belief Disagreement and Portfolio Choice." National Bureau of Economic Research Working Paper Series, 27 Sept. 2018, www.nber.org/papers/w25108. Accessed 9 Oct. 2020.

[2] Sources: Global Financial Data, 1853-1926; Morningstar, Inc. and Ibbotson Associates thereafter through 2015.

[3] Blinder, Alan S. and Mark W. Watson. "Presidents and the U.S. Economy: An Econometric Exploration." Princeton University, July 2015.

Lesson #2: The party in charge doesn't matter as much as you might think

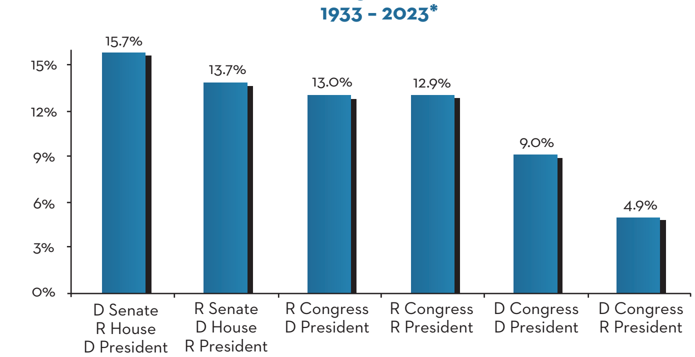
Going back to 1853, the average returns of stocks have been virtually even under both Democrats and Republicans.[2]

Since 1960, there have been 11 different presidents. Only two (Nixon and George W. Bush) saw negative stock market returns during their terms. The others oversaw tremendous prosperity despite policies and market events.

U.S. economic growth has been 1.8% faster under Democrats than Republicans; however, research suggests as much as 70% of this difference is due to oil price shocks, of which the president has little to no control.[3] **None of the economic growth rate differences were attributable to fiscal or monetary policy.**

Political sweeps would tend to have more dramatic impacts on returns; even then, the difference between a Republican and Democrat sweep was only 3.9% per year. The markets were strongly higher in both cases—up 12.9% and 9%, respectively.

Partisan Control, Average Annual S&P Performance
1933 – 2023*



*Data excludes 2001-2002 due to Senator Jeffords changing party mid-2001

Source: Strategas Research Partners

The returns of stocks depend on many factors that are outside the control of any politician: natural disasters, pandemics, other countries' trade policies, geopolitical tensions, technological innovation, oil prices, currency swings, monetary policy, inflation, and—more importantly—the timing of when they took office.

Lesson #3: The impact on the markets is less clear than it seems

Expert predictions about the impact of elections on markets are often wrong.

For example, the Obama administration and U.S. Congress passed the Affordable Care Act into law in March 2010. Many predicted this would lead to the great demise of healthcare stocks, particularly those in the insurance sub-sector. The reality was quite different. Over the next 2.5 years, health insurance stocks (such as UNH) produced just under 98% compared to 52% for the broader market.[4]

In the lead-up to 2016, some pundits suggested an economic collapse if Trump were elected. Ultimately, Trump's presidency did not wreck the stock market. The day after the election, stocks rose 6% from their night lows, generating 14% returns from 2017 to 2019. What wrecked the market during Trump's term was a global pandemic that completely shut down the economy, something the president has no control over.

Lesson #4: The 299,999,999 are greater than the 1

Every politician wants you to believe they are the savior, while the other person is a threat to democracy. These extremes fan fear and ultimately achieve what they want you to do: vote for them.

Those lines of thinking are extreme and, at least so far, have never played out as feared. While the U.S. president is undoubtedly the most important person in the country, there are 300 million other people in America—the individual actions of the other 299,999,999 matter more than the one.

Innovation drives stock prices more than the White House. Consider all the different technological innovations that have occurred since 1960. Any of those inventions are worth significantly more than the combined policies of every president over that entire period.

Researchers found that the tech giant Apple was more of a force in the market than the White House. Apple's products stimulated the U.S. economy with 2 million jobs. Its "app economy" alone has created 1.5 million U.S. jobs and earnings of more than $16 billion for U.S. developers. The efficiency in small businesses is another boon: 94% of small businesses use smartphones, which saves them an average of $65 billion in productivity.[5]

Lesson #5: Markets tend to respond to elections before they happen

The performance of the S&P 500 has predicted 87% of elections since 1928 and 100% since 1984. When returns were positive in the three months leading up to the election, the incumbent party won. When the market went down, the incumbent lost.[6]

Investors won't wake up the morning after the election and be shocked by who has been elected. Markets adjust according to which president and Congress investors believe will win and whatever policies may be enacted during their term.

Lesson #6: Markets dislike uncertainty

The markets dislike uncertainty, so a new president will generally introduce that. An incumbent president generally will not. That's why stocks have historically done better when the incumbent president wins. In years when an incumbent wins, stocks produced 13.4% compared to "just" 9.3% when a new president is elected.[7]

Sector Impacts for the 2024 Election Cycle

On average, we tend to hold stocks for three to five years, with some positions held for much longer than that. The 12 months on either side of an election represent only a fraction of what we're looking at in an investment. Therefore, we rarely make changes exclusively based on elections; if we do, those changes tend to be small—maybe one or two positions, at most.

The 2024 election has distinct characteristics that may shape market dynamics, policy developments, and sector performance. Below is our analysis of how different aspects of this election could influence the markets:

1. Economic Policies and Inflation

Both parties are focused on economic policies, particularly given the persistent inflation challenges of the past couple of years. If inflation remains a dominant issue, it could lead to divergent strategies from both parties.

Democrats will likely emphasize federal spending and social safety nets, pushing sectors like **renewable energy**, **healthcare**, and **infrastructure.** These areas would benefit from government support through fiscal initiatives. However, increased spending may also prompt market concerns about further inflationary pressures, which could negatively impact growth stocks and the bond market.

Republicans are more likely to focus on tax cuts, deregulation, and policies to control inflation by curbing government spending. This could boost **financials**, particularly if pro-business policies like corporate tax reductions or deregulation are passed. However, this could come at the expense of **clean energy**, which might receive less governmental support.

2. Sector Impact

Several key sectors may experience a direct influence from election results based on differing policy proposals:

- **Technology and Regulation:** Technology companies may face increased scrutiny regardless of who wins, with bipartisan concerns about data privacy, monopolistic practices, and cybersecurity. However, Democrats are more likely to push for stringent regulations, which could weigh on large tech.

[4] "Health Care Stocks: Performance under Obamacare - Obamacare - ProCon.Org." _Obamacare_, 28 Feb. 2020, healthcarereform.procon.org/health-care-stocks-performance-under-obamacare/. Accessed 9 Oct. 2020. [5] "A Campaign for Your Future." Hartford Funds (2016). Accessed on 9 Oct. 2020 from: https://www.raymondjames.com/northcoastadvisors/pdfs/resources.pdf

[5] "A Campaign for Your Future." Hartford Funds (2016). Accessed on 9 Oct. 2020 from: https://www.raymondjames.com/northcoastadvisors/pdfs/resources.pdf

[6,7] McKenna, Kristin. "Here's How The Stock Market Has Performed Before, During, And After Presidential Elections." _Forbes_, https://www.forbes.com/sites/kristinmckenna/2020/08/18/heres-how-the-stock-market-has-performed-before-during-and-after-presidential-elections/. Accessed 16 Oct. 2020.

- **Healthcare:** A Democratic win would likely lead to efforts to expand healthcare access through programs like the Affordable Care Act. This could support **healthcare services**, **pharmaceuticals**, and **biotech**. However, large pharmaceutical companies might face pricing pressure if Medicare drug negotiation reforms or pricing caps are implemented. Republicans, by contrast, may advocate for free-market healthcare solutions, benefiting **private insurers** and **hospitals**.

- **Defense:** Traditionally, defense contractors perform well under Republican administrations due to increased defense spending. In this cycle, however, it is less certain which companies will benefit most. Republicans are likely to focus on bigger-ticket spending and less on arming Ukraine. Democrats are also likely to sustain spending but may channel funds more toward cyber defense and advanced tech solutions, benefiting firms focusing on these areas.

3. Taxation and Corporate Policy

- **Corporate Taxes:** One of the largest potential impacts on equity markets is corporate tax policy. Republicans would likely seek to maintain or even reduce corporate tax rates, which would buoy profits across the board and be particularly beneficial for sectors with heavy capital expenditures, such as **energy**, **utilities**, and **industrials**. Democrats, on the other hand, might aim to reverse some of the 2017 corporate tax cuts, creating a headwind for earnings growth, especially in capital-intensive sectors.

- **Capital Gains Taxes:** We're also monitoring changes to the capital gains tax, which we don't expect will change; however, if Harris is elected and Democrats sweep Congress, the odds increase significantly. A Republican victory or split White House and Congress would likely signal stability in capital gains taxes.

4. Geopolitical Tensions

The election will also shape the country's approach to foreign policy, which could have downstream effects on market sectors sensitive to global supply chains and international trade:

- **China Relations:** Both parties have become increasingly hawkish on China, which could affect the **technology** and **semiconductor** sectors, given their dependence on global supply chains. Democrats may focus on economic sanctions and human rights, while Republicans could push for aggressive trade policies. This environment increases the risks for companies with significant exposure to China but could benefit **defense** and **domestic manufacturing**.

- **Russia and Energy Markets:** Depending on the outcome, energy markets could also face more volatility related to geopolitical tensions with Russia. Energy companies with operations or supply chains linked to Europe may be exposed to risks. In contrast, domestic energy producers could see demand increase under either administration due to a push for energy independence.

5. Federal Reserve and Market Sentiment

Although the Federal Reserve operates independently of politics, the political climate heavily influences market expectations around inflation, growth, and interest rate policy. If the election results in heightened uncertainty or the prospect of fiscal gridlock, the Fed may adopt a more cautious stance on rate cuts. This, in turn, would affect interest rate-sensitive sectors like **real estate** and **utilities**.

Final Thoughts

As we head into this election cycle, remember the tortoise's lesson: steady progress and patience win the race. Trying to time the market, much like the hare's overconfidence, often leads to missed opportunities. The key is sticking to your long-term strategy and trusting the process, even when the future seems uncertain.

As always, if you have any questions or concerns about your portfolio, please don't hesitate to contact your advisor. We appreciate your continued trust in us to help you and your family manage your wealth and look forward to guiding you through whatever the 2024 election cycle—and beyond—may bring.

A Guide to Why Interest Rates Matter

Role of Interest Rates in Financial Markets

Interest rates play a crucial role in financial markets, influencing everything from consumer spending to business investment and stock market performance. They represent the cost of borrowing money and are a fundamental tool for central banks. A central bank, like the Federal Reserve in the United States, is a national financial institution responsible for overseeing the monetary system and policy of a country or group of countries. Central banks manage economic stability by adjusting interest rates, which can speed up or slow down economic activity. When money is cheap, it stimulates borrowing, spending, and investments. Conversely, when money is expensive, it discourages these activities.

Impact on Personal Finances

We are most familiar with interest rates on mortgages, credit cards, personal loans, and savings accounts. The interplay between these rates profoundly affects our financial behaviors. For example, a low interest rate may entice someone to buy a home or vehicle, whereas a high interest rate on a bank account might encourage more savings. The same is true for small businesses or corporations. Low interest rates make it easier to purchase new buildings or equipment, while higher interest rates make these investments tougher. By manipulating interest rates, a central bank reaches into the heart of the economy and pulls on these levers.

How Central Banks Control Interest Rates

How does a central bank like the Federal Reserve control the interest rates in an economy? They do so through the Federal Funds Rate, which is the rate that commercial banks charge each other to borrow money overnight. The Fed can alter this rate by buying or selling short-term securities, making it more or less attractive for banks to keep money in their reserves instead of lending it out. This, in effect, controls how much money is flowing through the economy. When money is scarce, the cost to borrow it is high. When money is abundant, the cost to borrow it is low.

Effects on Stocks and Bonds

Interest rates also impact stocks and bonds. High interest rates increase the cost of capital and competition for it. When rates are high, businesses are less likely to invest in projects that will grow their earnings, and fixed-income alternatives may begin to look more attractive by comparison. The opposite is true when rates are low. It's also important to know that bond prices are influenced by interest rates. When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. Investors should be aware of these dynamics as they manage their portfolios.

Year-End Planning for Your Peace of Mind

Jessica Klostermann, FPQP™
Director of Client Services

As the end of the year rapidly approaches, you might be thinking about giving cash or stock gifts to charitable organizations or family members. You may also be considering a last-minute Roth conversion or opening a Donor-Advised Fund. If any of these are on your to-do list, we recommend notifying your advisor as soon as possible.

For 2024, our custodians have a **December 1 deadline** for year-end requests. This includes stock gifting, Qualified Charitable Distributions (QCDs), Roth conversions, and opening Donor-Advised Funds. While this date may seem early, it allows ample time for paperwork preparation, signing, and completion before the year's end. With the increase in requests during this busy period, we want to ensure that yours are processed smoothly.

We hope this reminder helps you prepare for the upcoming season. By planning ahead, we aim to provide you with the best possible service and peace of mind during this busy time of year. If you have any questions, we're always here to help and happy to assist you.

As always, we thank you for the opportunity to serve you.

Happy Holidays,

JKlostermann

Insurance for Every Phase of Life

DCM does not sell insurance. Our fiduciary duty is to serve your interests above our own in every single thing we do. You can be sure that the advice you receive has your best interest in mind.

Understanding Risks and Opportunities

As part of your financial plan, it is important to understand not only where the opportunities lie but also where the risks are. Without proper planning, unexpected expenses or loss of income can derail an otherwise solid plan. Insurance plays a pivotal role in trying to mitigate these risks. However, your insurance needs change as you progress through the various stages of life.

Starting Out: Health and Automobile Insurance

As you enter the real world of adulthood, your primary insurance concerns typically revolve around your health and automobile coverage. Maintaining appropriate health insurance is an essential part of every financial plan. You never know when a health situation will arise, and the unexpected expenses could be devastating. Exploring options available through your employer-based or individual marketplace plans is important to secure quality, affordable health coverage that fits your needs.

Regarding automobile insurance, we sometimes take it for granted, but by driving an automobile, we assume significant risks. The financial implications of an automobile accident can also be devastating. You always want to ensure that your automobile coverage is adequate and, at a minimum, provides liability protection if you were to be at fault in an accident.

Building Your Life: Home, Marriage, and Family

As you grow older, life events such as buying a home, getting married, or starting a family bring new joys and responsibilities. These milestones also expand the scope of your insurance needs. For example, a mortgage or dependents add another layer of responsibility that relies on your ability to provide income. If you lose that ability because of death or disability, it could put your family in an untenable financial situation.

This is where life and disability insurance become integral parts of your financial plan. Life insurance can provide a death benefit, and disability insurance can provide a steady income stream that allows you or your dependents to maintain your lifestyle. At this stage of life, you will want to work with a professional who can provide a comprehensive analysis. This can help ensure that you have the appropriate level of life and disability coverage to meet your needs and offer peace of mind.

Buying a home means adding homeowners insurance to your plan to protect against accidents, lawsuits, or natural disasters. As you accumulate assets like jewelry, art, or collectibles, consider adding umbrella insurance as a cost-effective way to provide additional liability coverage beyond what your automobile and homeowners policies provide. Finally, as your family grows, you will need to revisit your health and automobile insurance to provide your dependents with proper coverage.

Approaching Retirement: Your Evolving Insurance Needs

As you near retirement, your insurance needs continue to evolve. The closer you get to retirement, the income replacement needs covered by life and disability insurance may decrease. However, you may decide to maintain some level of life insurance for legacy or estate planning purposes.

Thinking about aging and a decline in health is not something that most people enjoy. As time progresses and you approach your golden years, you may need some form of long-term care. Expenses associated with long-term care can be exorbitant, and you will want to start thinking about strategies to plan for these expenses, which could include long-term-care insurance.

Health insurance is an ongoing need throughout your life, especially at this stage. If you retire before becoming eligible for Medicare, explore individual marketplace options that will best bridge the gap. There is a lot of confusion surrounding individual health care and Medicare, making it challenging to navigate these markets. Choosing the wrong coverage can mean missing out on essential services, which could significantly affect both your health and finances. It is important to select a plan that meets your needs to avoid these potential issues.

Navigating Life's Chapters with Confidence

Just as your life passes through various chapters, so do your financial risks and corresponding insurance needs. Determining what coverage you need and how much can be confusing and overwhelming. As part of your comprehensive financial plan, DCM is dedicated to helping you understand this important topic so you can make informed decisions based on your needs, values, and goals. If you're interested in an insurance review, we're here to assist you.

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