FALL 2025

RISING DIVIDEND REPORT

DONALDSON
CAPITAL MANAGEMENT

The Joy of Saying "Yes"

As financial advisors, we often focus on growing portfolios and minimizing taxes, but financial planning goes beyond that math. The real power of a well-crafted financial plan lies in how it eases the anxiety of uncertainty so you can start saying "yes" to the things that you've dreamt of doing with confidence and anticipation.

What would you do if you no longer worried about running out of money? For some of our clients, that's starting a charitable fund that helps them share the joy of giving generously with their entire family each year. Some of you create cherished memories by taking your kids' families on vacations that they can't afford on their own.

We've helped families on their stewardship journeys, as they talk through estate planning together, sharing values and stories across generations. We have encouraged and supported your thoughtful decision-making to address concerns and find creative solutions that benefit the whole family. Helping your family in this way is one of the greatest joys and deepest sources of meaning we get from our work as advisors.

It's a delight to celebrate with you as you embrace the freedom to say "yes" more often to experiences, to generosity, to joy.

Blake Alsman

Blake Alsman, CFP®
Senior Investment Advisor & Partner

Forbes 2025 AMERICA'S TOP RIA FIRMS SHOOK RESEARCH

Donaldson has been recognized by Forbes as one of America's Top RIA firms for 2025.

See full disclosure on back

Highlights from the Investment Policy Committee

1 DCM'S HIERARCHY OF INCOME NEEDS
All retirees, whether current or future, must cover their hierarchy of income needs.

2 BASE LEVEL: NEEDS
The base of the retirees income is for needs like food, water, clothing, & shelter; needs are best met with extremely secure, conservative fixed income sources and Social Security.

3 NEXT LEVEL: WANTS
The second level are wants that make life more enjoyable. This income is best met with Rising Dividend™ income.

4 FINAL LEVEL: LEGACY
Finally, after wants and needs are well-covered, the legacy bucket is for leaving or giving money to others. This bucket can be more aggressively invested.

5 SEQUOIA: FOR LEGACY
Sequoia is our newest strategy, which focuses on maximizing long-term growth for those seeking to grow their legacy.

Read the IPC Letter on page 3

How Lower Interest Rates Might Impact Your Financial Plan

The Federal Reserve (Fed) has started lowering interest rates slightly, cutting the Federal Funds rate by 0.25% in September. Last year's rate reductions were halted out of concern that new tariffs could drive prices higher. But with inflation holding steady and the job market softening, officials judged that the time was right to ease borrowing costs for households and businesses.

The Federal Funds rate is the short-term rate banks charge each other, and it sets the tone for borrowing costs across the economy. Even small adjustments to rates can affect how easy it is to get loans, how much you earn on savings, and how investments are valued.

What It Means for BORROWING

The most immediate effects will be seen in lending markets. Credit card and consumer rates may gradually ease, while mortgage rates could drift lower, creating opportunities for refinancing or new purchases. It also becomes easier for businesses to borrow money as loan costs go down. Even though the change is small, slightly lower rates can make it more appealing to take out bigger or longer-term loans.

What It Means for SAVING

The picture is different on the savings side. Interest earned on savings products like money market accounts, certificates of deposit, and high-yield savings accounts may start to decrease. However, even with this adjustment, today's cash returns remain significantly higher than what investors have experienced for much of the past two decades. This shift is a good reminder to think about how much cash you need on hand and whether extra money could be put to better use in long-term investments.

What It Means for INVESTING

Lower rates also matter for valuations. When interest rates fall, future company profits look more valuable, which can help boost stock prices, especially for companies focused on growth. Lower returns on cash and bonds may lead investors to focus more on stocks and other types of investments. Bond prices may rise as interest rates fall, and real estate could pick up again, thanks to more affordable loans.

Looking AHEAD

The Fed has indicated it may lower rates again if the economy weakens, but it plans to move cautiously. For investors, the message is simple: rates are slowly going down, which may create new opportunities—but it's still important to make sure your investments match your long-term goals.

Needs, Wants, & Legacy

by Nathan Winklepleck

Few movie scenes are as unexpectedly heartbreaking as the scene in *Cast Away* when Chuck Noland (Tom Hanks) watches his only companion—a volleyball named "Wilson"—drift out to sea, crying, "WILSOOOOOONNNNNN!"

Cast Away captures the human drive to meet basic needs, progress toward safety and belonging, and ultimately reach self-actualization—a vivid illustration of Maslow's Hierarchy of Needs:

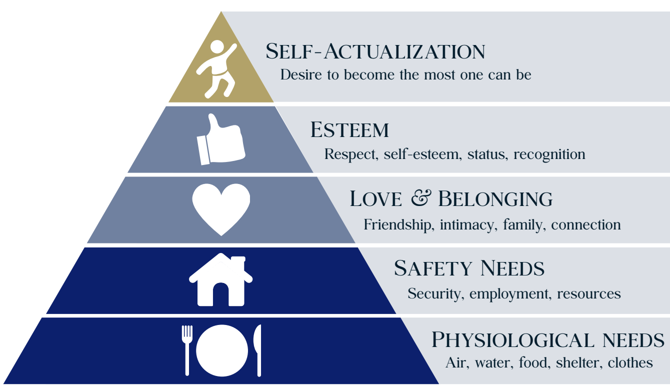

Figure 1: Maslow's Hierarchy of Needs

DCM's Hierarchy of Income Needs

We can reframe Maslow's theory to apply it to your investment portfolio. If you're retired, this applies to you today. If not, you're working towards it. For the purposes of this letter, we'll focus on retirement income—whether you're currently retired or planning for it. For most of you, your income in retirement will look something like this:

Base Level: *Needs*

Figure 2: DCM's Hierarchy of Income Needs (Needs)

The base of your retirement income pyramid is your 'Needs.' These are the must-haves: food, water, clothing, healthcare, and personal safety. The first step to any retirement plan is to ensure that these essentials are met with very little risk. The income you need to meet these basic needs should be guaranteed or close to it. For most retirees, these needs are met through a combination of Social Security, company pensions, or interest from fixed-income strategies like our Preservation of Capital. While these strategies aren't going to grow your long-term wealth, that's not their purpose. These provide the basic income required to provide protection against poverty.

Next Level: *Wants*

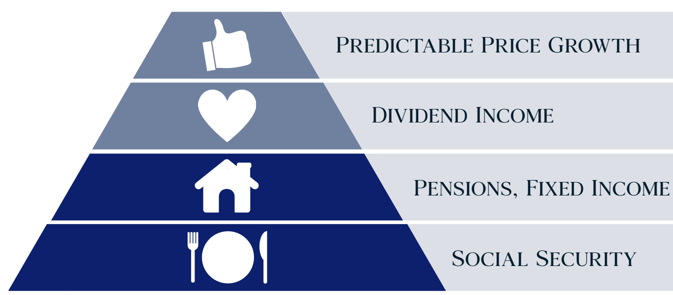

Figure 3: DCM's Hierarchy of Income Needs (Needs & Wants)

Once 'Needs' are secure, we move to 'Wants'—non-essential but desirable experiences that support relationships, self-esteem, personal growth, and provide comfort and convenience.

The 'Wants' are where our Rising Dividend Cornerstone™ strategy is tailor-made: it currently generates a generous, above-average dividend income that is well-covered by the companies' underlying earnings. We expect this dividend income to grow over time above the rate of inflation. If it does, your retirement spending can also increase without selling shares.

A rising income stream of dividends also tends to drive prices higher over time, producing what we call "predictable price growth." While these price increases aren't as reliable as dividend income, we do expect them over the long-term.

Final Level: *Legacy*

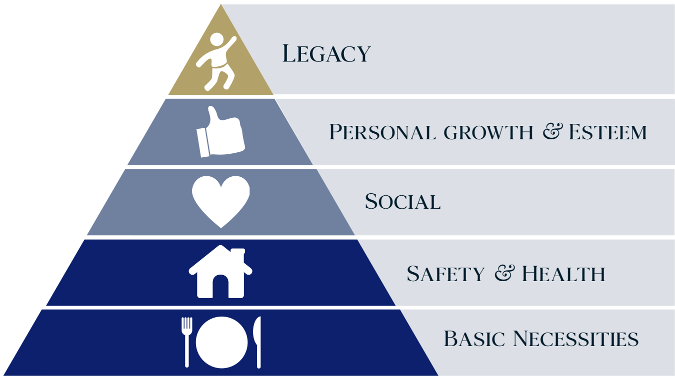

Figure 4: DCM's Hierarchy of Income Needs (Needs, Wants, & Legacy)

At the very top of the pyramid, we have 'Legacy.' This is the final stage of a fulfilling retirement.

The 'Legacy' bucket is where we start to think about ways you can make a positive contribution to other people's lives: your kids, grandkids, community, church, friends, other family members, or people less fortunate than yourself. These are aspirational goals, like paying for your grandkids' college or building an orphanage in South Africa. Are these things required? No. Could you live without them? Yes, but we find that many of you long to leave a lasting legacy for others.

And that is where we found that our investment menu was lacking. Many of you had your 'Needs' and 'Wants' covered by your particular mix of Social Security, pensions, Preservation of Capital, Rising Dividend Cornerstone, Income Builder, and other income sources. Still, you wanted a more aggressive, potentially higher total return strategy to build toward a lasting Legacy.

For those of you still accumulating for retirement, you were also looking for more exposure to a total return-focused strategy.

More Growth

Our investment philosophy has long been focused on three pillars:

1. **Security**—companies with strong balance sheets and consistent profitability,
2. **Income**—companies that pay dividends, and
3. **Growth**—the growth of underlying fundamentals, which we expect will ultimately lead to growth in price.

Each of DCM's strategies prioritizes those three pillars a bit differently:

- **Cornerstone** prioritizes Security first, followed by Income, and Growth as the last priority.
- **Income Builder** puts focus on Income first-and-foremost, then Security, and lastly Growth.
- **Capital Builder** focuses on Security first, then Growth, and finally Income.

Across all those strategies, **we had no strategy where Growth was the #1 objective.**

So, we designed a new strategy from the ground up. In May 2021, we launched a new strategy that would later become "Sequoia." The stated goal of Sequoia is to outperform the S&P 500 Index, net of fees, over the long term.

Unique, but Familiar

We wanted Sequoia to be unique in its approach, focused on aggressive Growth, but also true to DCM's investment philosophy that we've held for decades.

At its core, Sequoia shares the philosophical roots (pun intended) with our other strategies, but it differs in one significant way: Sequoia is entirely quantitative. We designed an algorithm, which we call "CAMP." (More on that in a minute.) The stock with the highest score is added to the strategy.

For the balance of this letter, we'd like to share that methodology with you. As we do, remember that our intent here is not to convince you to invest in Sequoia; we merely want to educate you on something that may be of interest. At minimum, we hope the discussion below can help you understand a bit more about our investment philosophy for all strategies, not just Sequoia.

Investable Universe

An essential part of any investment strategy is first defining your investable universe: what types of stocks will you invest in? In Cornerstone, for example, we apply dividend, financial strength, momentum, and size filters to end up with a list of roughly 100 to 150 stocks to build Cornerstone out of.

Sequoia's investable universe is a list of the top 50 stocks ranked by hedge fund conviction. We define "high conviction" as owning at least 7% of a stock. For example, if there are 90 hedge funds that own a 7%+ position in Nvidia (NVDA), NVDA would get a 90. The top 50 stocks by hedge fund conviction score make it through into our investable universe.

From there, we apply our proprietary "CAMP" scoring system to determine which 20 stocks should make the final portfolio. We split up the "CAMP" score as follows:

■ Competitive Advantage: 40%

The hallmark of all great businesses, whether public or private, is a competitive edge over their competitors.

In Cornerstone, the bulk of our investable universe has some kind of competitive advantage. Out of about 6,000 stocks on U.S. exchanges, only 66—less than 1%—have increased their dividend for 25 or more years.[1] What enables a business to succeed where 99% fail? This kind of rare business result indicates some sort of rare business input: a product, service, culture, leader, or some combination of all these that makes it difficult for competitors to match.

Sequoia estimates competitive advantage by scoring each company on its ability to convert invested capital into sales and profits, a hallmark of companies with some kind of competitive edge. Competitive advantage is an essential part of any great long-term investment. It is 40% of Sequoia's algorithm.

■ Momentum: 40%

Newton's first law of motion tells us that an object in motion will stay in motion unless acted on by an outside force. If your son throws a rock at his sister, that rock will tend to move until it hits the target. (This is an entirely hypothetical situation, of course.)

Stocks, like rocks, tend to follow similar patterns. Decades of research show that the best (worst) performing stocks from the last 6 to 12 months are more likely to continue to be the best (worst) over the *next* 6 to 12 months. The same thing applies to fundamentals: companies with accelerating (decelerating) earnings tend to outperform (underperform).

Where competitive advantage tends to drive stock performance over the long term, "Momentum" tends to drive stock prices in the short-to-medium term. All else being equal, Sequoia wants to own companies whose earnings expectations are accelerating, and they are closer to hitting 52-week highs than lows. Momentum accounts for 40% of the formula.

■ Predictability: 20%

Even going back to the early days of DCM, technology and innovation have long been a part of our decision-making process.

In *The Hidden Power of Rising Dividends*, Greg Donaldson shares the history of our statistical models. In early 1991, Greg was searching for a way to estimate the fair value of the Dow Jones Industrial Average. To do that, he built a statistical model that used a combination of interest rates and dividends to predict the price. While the techniques and variables of those models have changed over time, we still use the core principles of those models today.

The tightness of the relationship between prices and fundamentals is called "R-squared." A higher R-squared indicates a stronger relationship between prices and fundamentals. Ideally, we would like to invest in companies where both the fundamentals and prices are moving higher in a similar direction. Companies with high correlations receive high "Predictability" scores in Sequoia, which makes up 20% of the formula.

Is Sequoia for You?

As much as we'd love to make a strategy that provides all things for all people, that's simply not possible. By pushing Growth to the maximum, you naturally sacrifice on Security and Income. There is no single strategy that can do it all; we want to customize your specific portfolio to meet your needs.

That may mean pushing Growth a little higher, Security and Income a little lower, or it may not. If your Needs and Wants are securely funded and you wish to be more aggressive with your Legacy bucket, speak with your advisor to determine whether Sequoia fits your plan.

1. Dividend Aristocrats List. (2025, September 30) Stock Analysis https://stockanalysis.com/list/dividend-aristocrats/

Breaking Down the One Big Beautiful Bill Act

ON JULY 4, 2025, *President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. This wide-ranging legislation makes many of the 2017 tax cuts permanent. While the bill is nearly 900 pages long, here are the key changes that matter most for your financial plan.*

Tax Rates Stay the Same

The current income tax brackets and rates, including the top rate of 37%, are now permanent. The Alternative Minimum Tax (AMT) exemption is also locked in, though with slightly lower phaseout thresholds. These updates provide long-term clarity for tax planning.

Deductions & Credits

- **Standard Deduction**
  Permanently increased to $15,750 for single filers and $31,500 for joint filers, with future adjustments for inflation.
- **Child Tax Credit**
  Increased to $2,200 per child and indexed to inflation.
- **Senior Deduction**
  A new $6,000 deduction for filers age 65 and older is available from 2025 to 2028, with income-based phaseouts.
- **Itemized Deductions Cap**
  In 2026, tax benefits of itemized deduction are capped at 35%, even for clients in the 37% tax bracket.

Estate & Gift Planning

Starting in 2026, estate, gift, and generation-skipping transfer exemptions rise to $15 million per person and $30 million per couple. These limits will increase annually with inflation, offering more certainty for long-term planning.

Savings & Education Benefits

- **Trump Accounts**
  New tax-advantaged accounts for children born in 2025 or later allow up to $5,000 in annual contributions. Growth is tax-free, and withdrawals can be used for education, first homes, or emergencies.
- **529 Plans**
  Beginning in 2026, 529 plans will expand to allow up to $20,000 per year in qualified withdrawals for K–12 expenses, including books, tutoring, and online materials.

Charitable Giving Updates

You can now deduct up to 60% of your adjusted gross income when itemizing. However, beginning in 2026, itemized charitable deductions will only apply to amounts above 0.5% of your adjusted gross income. This works similarly to the current medical expense rule, which starts at 7.5%. For tax filers using the standard deduction, you will be able to claim up to a $1,000 charitable deduction per person in 2026.

Other Key Changes

- **State & Local Taxes (SALT) Deduction Cap**
  Temporarily increased to $40,000 through 2029, with 1% annual increases, then returns to $10,000.
- **Clean Energy Credits**
  Ending after 2025 for vehicles and home improvements.
- **Affordable Care Act (ACA) Premium Credits**
  Expanded eligibility ends in 2026.
- **Qualified Business Income (QBI) Deduction**
  The 20% deduction for pass-through businesses is now permanent.

What This Means for You

These changes offer greater clarity for your tax strategy, estate planning, and savings goals. Your Donaldson advisor is already incorporating these updates into your financial plan. If you have questions or want to explore how this affects your goals, we are here to help.

A September to Remember

September gave us two wonderful opportunities to come together. We celebrated 30 years with you at Party in the Park and walked alongside you at the Columbus Marathon, Half Marathon, & 5K. Whether you were tapping your feet to classic tunes or crossing the finish line, your presence made these moments truly special. Thank you for joining us.

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CAPITAL MANAGEMENT

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FORBES RATING:
On October 2, 2025, Donaldson was named by Forbes as America's Top RIA Firms in 2025, ranking #153 out of more than 50,000 registered advisory firms. No compensation was provided to Forbes or SHOOK Research to obtain inclusion on the list, but there is a licensing fee to utilize the Forbes Top 250 RIA logo in marketing materials. Criteria may not be directly related to the quality of investment advice provided. If you're curious, the full methodology can be found on https://www.forbes.com/lists/top-ria-firms/

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