SPRING 2025

# RISING DIVIDEND *REPORT*

DONALDSON
CAPITAL MANAGEMENT

## New Look, Same Heart

Do you notice anything different about this Rising Dividend Report? In celebration of our 30th year as your trusted advisor, we have been diligently working on a refreshed look. I'm thrilled to finally share our reimagined brand, which honors our past with the integration of the iconic Cornerstone logo, but with an eye toward the shared future we envision with you. Soon, you will see this new look reflected in the information we share with you, as well as on our redesigned, more intuitive website. We can't wait to hear what you think.

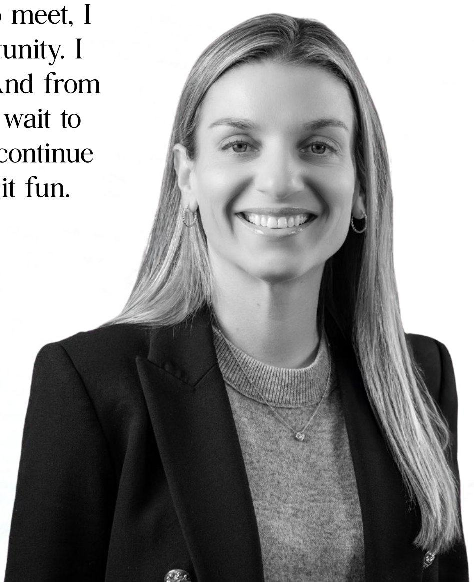
In conversation with my colleagues at DCM, we find that we are constantly looking at the past, present, and future. What have our clients needed? What do they need now? What will they need in the future? You're always on our minds. Investments we make in DCM, such as improving our website, help keep our company competitive and healthy, which is critical to ensuring we can be your advisor for generations.

As you read through this edition, you'll certainly notice what's different: new colors and fonts, a new logo, and new faces. But, I hope you will also connect with what is the same and growing deeper: our commitment to bringing you practiced, sophisticated, and practical solutions to help you achieve your financial goals.

If we haven't had the chance to meet, I will look forward to that opportunity. I would love to hear from you. And from the bottom of my heart, I can't wait to experience everything we will continue to achieve together. Let's make it fun.

Sarah Moore

**Sarah Moore, CFP®**
CEO & President



## *Highlights from the Investment Policy Committee*

1 ECONOMIC STORM BREWING
After a strong 2024, 2025 faces rising unemployment, a projected 2% GDP contraction, and increasing fears of "stagflation"—a dangerous mix of recession and high inflation.

2 INVESTING FOR RESILIENCE
Rather than relying on uncertain economic forecasts, investors should focus on owning robust, high-quality companies built to endure downturns.

3 QUALITY DEFINED (P-R-I-M-E)
High-quality companies possess **P**ricing power, **R**esistance to tariffs, **I**nnovation, strong **M**anagement, and offer **E**ssential goods or services—traits crucial during economic uncertainty.

4 MANAGEMENT MATTERS
Companies with experienced leaders who proactively manage risks—such as navigating tariffs—historically deliver stronger performance and resilience.

5 ESSENTIAL BUSINESSES THRIVE
Firms providing daily essentials offer stability even amid severe economic disruptions, making them prime investment candidates for turbulent times.

*Read the IPC Letter on page 3*

# *SAVE THE DATE* for DCM's Party in the Park

*You're invited to join us for the ultimate client appreciation party as we celebrate 30 years in business.*

Enjoy live music, beer & wine, and food trucks, courtesy of DCM. Live music starts at 7:00 pm, featuring American Eagle USA, an Eagles tribute band.

We would love to see you.

**FRIDAY, SEPTEMBER 19**
5:30pm—9:00pm CT

**FRIEDMAN PARK AMPHITHEATER**
2700 Park Boulevard
Newburgh, Indiana

# Welcome Our New Board Members

*"Please meet Kate Doerksen and Drew Runion. Kate and Drew have joined our Board of Directors and will be using their entrepreneurial and client-focused insights to help advise and guide our path into the future."* — Mike Hull, Chairman of the Board

Kate Doerksen is an experienced entrepreneur with a passion for building technology businesses that drive industry change and make the world a better place. She has a proven track record of founding and scaling successful companies across various consumer and enterprise sectors. Recognized for her strategic visions and leadership, Kate is a sought-after board member. She serves as Vice Chairman of the Finance & Investment Committee on the Ball State Foundation Board and the Board of Directors of LUUM, a robotics/AI company.

Kate lives in Danville, CA, with her husband, Chris, and their two kids, Grace and Calvin. She's a member of the PTA at her kids' public elementary school, coaches both of her kids in basketball and enjoys playing competitive tennis.

Drew Runion is Vice President and Partner of ABC Cutting Contractors, Inc., a concrete cutting company based in Whiteland, Indiana. ABC Cutting, established in 1985, serves many of the region's largest construction companies and specializes in complex construction projects. Runion has been with the company for 15 years and is a third-generation business owner of ABC, following his grandfather, uncle, and father.

Outside of work, Drew actively invests in multiple businesses and enjoys providing insights drawn from his professional experiences. Drew lives in Columbus, IN, with his wife, Claire, and their three children, Adley, Hayes and Collins. Drew loves to spend time with his family, attending sporting events and playing golf.

# Navigating Uncertainty with P-R-I-M-E Companies

by Nathan Winklepleck

In 2017, Hurricane Irma hit the United States. That storm alone damaged or destroyed 50,000 recreational boats. Later that year, Hurricane Harvey wrecked 13,500 boats.

Storms of this magnitude can take out large ships. On average, roughly one to three large ships are lost to hurricanes and typhoons each year—a minuscule amount compared with smaller ships. While a giant hurricane or typhoon may batter and bruise them, a large ship is built to take a huge amount of damage from Mother Nature before succumbing to a storm.

The Labor Day Hurricane of 1935 remains the strongest hurricane on record to ever strike the United States, with winds over 185 miles per hour. Despite 18-foot waves, there were only three reported ship groundings, and remarkably, not one passenger lost their lives. All three ships, the Danish motor ship *Leise Maersk*, American tanker *Pueblo*, and passenger steamship *Dixie* continued service even after the devastating storm.

## Stormy Seas in 2025

2025 has felt a bit like watching the waves slowly pick up on the shoreline, steadily crashing in harder and harder, as dark clouds form in the distance. There is a storm brewing, but the question remains whether that storm will pick up enough steam to do any real damage or whether it will calm down before it reaches the shore.

After a strong year in 2024 for the economy and markets, 2025 is off to a shaky start. The Atlanta Federal Reserve's GDPNow model projected a 2% contraction for the economy in Q1 2025. And while the labor market remains strong, unemployment is now over 4% and rising from its 2023 lows.

The biggest concern to markets, however, is the increasing probability of "stagflation"—the combination of both a recession and above-average inflation. If that were to happen, the U.S. Federal Reserve would have no choice but to continue its restrictive policies, seeking to break inflation.

## Weathering the Storm

*"The point is to consider risk control, loss avoidance, at least as important as return."* — Howard Marks

Is there a bigger economic storm brewing?

It's hard to say; the U.S. economy is a complex interaction between millions of consumer decisions, business decisions, fiscal policy, monetary policy, and all of our trading partners in other countries. As we saw in 2022, when everyone was sure there would be a recession, the economy is virtually impossible to predict. In the words of John Kenneth Galbraith, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Relying on forecasting recessions to survive is a bit like relying on meteorologists to protect your small fishing boat from storms. It's far better just to own a bigger boat designed to withstand a lot of abuse. Surviving storms inside a seaworthy vessel is far easier than relying on your forecasting skills to navigate a small boat around them entirely. Storms will come; it's just a matter of time before you put your small boat to the test.

In the same way, investors often rely far too much on their forecasting abilities to flitter in and out of aggressive, speculative positions—hoping that they don't get caught out in a hurricane. In our experience, that's a dangerous way to invest.

That's why we focus our portfolios, first and foremost, on **Security**—with **Growth** as a *secondary* objective. Even if we get a surprise recession, which they all tend to be, we're not going to be caught off-guard owning something that may do well in a prosperous economy, but fail to survive the next downturn.

As it turns out, however, there is a wide body of research that suggests security and growth both come from the same place: quality companies.

"Quality" gets thrown around a lot, but what does it mean? In a research paper by AllianceBernstein, they defined and measured "quality" by three things:

1. High and Stable Profitability
2. Strong Free Cash Flow
3. Healthy Balance Sheets

"Investors who concentrate on quality in their everyday stock-picking processes are better equipped to identify durable companies that have what it takes to get through uncertain times," they found. While these three characteristics are all things we look for in companies all of the time, there are specific focuses we have for different environments. Much like a ship can weather different storms better than others, two companies—even both high-quality—can handle environments differently based on their specific characteristics. So, how does this "quality" tilt work today?

# In Search of P-R-I-M-E Companies

We're focusing on building portfolios full of companies that possess five important measures of quality, summarized by the acronym P-R-I-M-E: **P**ricing Power, **R**esistant to Tariffs, **I**nnovative, **M**anagement, and **E**ssential.

These are characteristics we look for in companies regardless of the environment, but we believe they are particularly important considering the uncertainties we have for the balance of 2025.

Let's go through them one by one:

## *PRICING POWER*

*"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by a tenth of a cent, then you've got a terrible business. I've been in both, and I know the difference."* — Warren Buffett

The risk for retailers is obvious: tariffs raise costs that they'll either have to absorb, share with their suppliers, or pass along to customers by charging higher prices—likely resulting in less demand for their products.

Between 2018 and 2019, President Trump introduced 10% tariffs on certain goods in his first term. Despite these tariffs, not all costs resulted in price increases. For example, furniture prices increased by 2.3%—suggesting that most of the costs were absorbed by the manufacturers and retailers, not the end consumers; it's also likely that not all of the price increases were from tariffs alone. Prices tend to increase over time, even without tariffs.

Ali Furman, consumer markets leader for PricewaterhouseCoopers, pointed out that consumers are far more cost-conscious than they were when Trump became president in 2017; therefore, companies will "have to be much more thoughtful about passing on those costs to the consumer."[1]

It can seem like companies are subject to many factors outside their control. To some degree, that is true; however, not all companies have the same vulnerability to market forces. Some can exert a far greater degree of control over their own destiny.

Consider a battleship versus a sailboat. In the same storm, the battleship will experience the same wind, waves, and forces of Mother Nature; however, it has a far greater chance of survival than the less-fortified, smaller sailboat.

Consistently high profitability is a key indicator of pricing power. AllianceBernstein found that the top 20% of companies sorted by Return on Assets (ROA) and earnings per share growth outperformed the Russell 1000 Growth Index by 3 times from 1994 through March 31, 2020.

Dividends themselves are also a good indicator of quality; research consistently shows that dividend growers and initiators tend to outperform the average company. In the chart below, Ned Davis finds that an equal-weighted portfolio of Dividend Growers & Initiators, rebalanced monthly, generated 10.3% growth per year compared with 7.8% per year for the equal-weight S&P 500.[2]

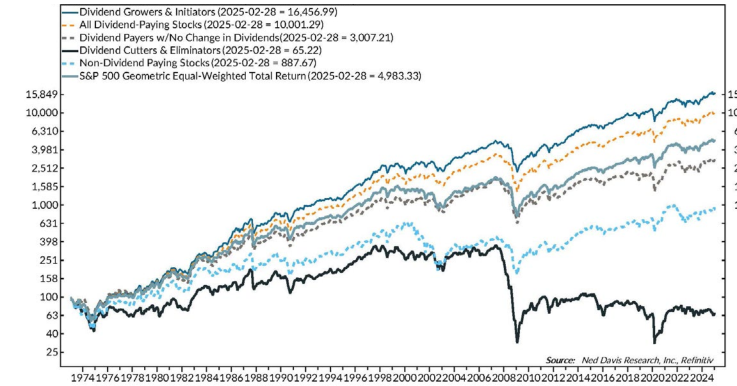



Figure 1: Ned Davis Research, Returns of S&P 500 Stocks by Dividend Policy, Monthly Data, 1973-01-31 to 2025-02-28.

## *RESISTANT TO TARIFFS*

Some industries are vastly more exposed to tariffs than others. Automakers, for example, are heavily reliant on imported aluminum, steel, and semiconductors. Electric vehicles have additional exposure to imported lithium-ion batteries and AI chips. They also sell big-ticket discretionary items that consumers can easily cut back on.

Retail and apparel companies are also at risk; more than 40% of U.S. apparel and footwear is imported from Asia.[3] Nike (NKE) has major factories in China and Vietnam, both of which face higher tariffs on imports. Not only that, but consumers looking to shave costs can cut back on these largely discretionary purchases where possible.

Other companies may benefit from a trade war. One example is defense contractors; while the DOGE threatens to cut back on costs, the impact of a trade war is clear: the friction not only increases conflict between countries, but it reduces their incentives to cooperate. When China and the U.S. are significant trading partners, it's less likely for war between them; conversely, less trade increases the chance of conflict.

U.S.-based manufacturers are also set to benefit as they are insulated from higher costs from tariffs that many of their competitors face, allowing them to maintain margins, increase market share, or both.

Utilities are another example of a largely tariff-immune business; not only are their revenues almost entirely rooted in the U.S., but their rates are fixed for a period and are essential expenses for households. Any increased costs from higher capital expenses will directly be offset by allowed returns on capital rates.

Finally, digital service-based companies—like Microsoft (MSFT) and Constellation Software (CNSWF), for example—are largely immune, as most of their cost-of-production is in the past, and additional incremental costs are largely domiciled in the U.S. and distributed digitally, avoiding higher energy costs.

*1 https://www.cnbc.com/2025/01/20/trump-tariff-news-products-and-companies-most-at-risk.html*
*2 Source: Ned Davis Research. Dates studied were January 31, 1973 through February 28, 2025, rebalanced monthly showing geometric returns.*
*3 https://get.ycharts.com/resources/blog/which-companies-will-lose-from-new-u-s-tariffs-market-risks-portfolio-considerations/*

## INNOVATIVE

Innovation isn't limited to big tech, electric carmakers, and social media companies. Those companies are innovative, yes, but there are many forms of innovation. For example, Automatic Data Processing (ADP) takes advantage of its massive amount of data on employers. Waste Management (WM) takes an otherwise wasteful byproduct (methane) and converts it to gas, which it can sell—turning a waste into a profit.

Innovation is, perhaps more than anything, a cultural phenomenon. A culture of innovation results in inventive ways to deal with hardships of all kinds, whether that's a recession, inflation, tariffs, regulations, or otherwise, innovative companies find ways to make it happen.

Innovation typically results in consistent earnings growth. Growing earnings year-after-year is rare, which is why it's often rewarded by markets. From 1979 to 2019, only 356 of the top 1,000 U.S. companies were able to grow their earnings by more than 10% in any given year. Only 76 were able to grow by 10% or more for three straight years; those companies outperformed the S&P 500 by 0.7% per year. And only 22 U.S. companies were able to grow their earnings by 10% or more for five consecutive years; those companies outperformed the S&P 500 by 2.1% per year, on average.[4]

Those same results were found for non-U.S. companies. Only 377 of the top 1,000 global companies grew their earnings by 10% in a year. Only 64 were able to do it for three straight years; they outperformed the MSCI World Index by 2.2% per year. And the 13 companies that did it for five straight years outperformed by 3.5% per year.[5]

## MANAGEMENT

Much like an experienced captain is more likely to steer a ship to safety, even through a storm, skilled managers are better able to steer their companies' strategic direction to navigate difficult environments.

For example, in their Q2 2025 earnings call, Costco (COST) talked about how they built up inventories to avoid tariffs to the greatest extent possible. Gary Millerchip, CFO, said, "One of the things that was an increased cost during the quarter was higher supply chain costs as we have been continuing to buy more inventory, which we think will be helpful as you think about some of the unpredictability that we've seen in supply chain timing and also with the potential risk around tariffs."

Companies, especially the great ones, aren't going to sit on their hands and accept whatever headwinds come at them; they are going to actively look for ways to mitigate the impact.

Good management is, unsurprisingly, one of the most important factors in determining the long-term success of a business. However, it is notoriously difficult to assess; most CEOs, COOs, CIOs, and CFOs are in their positions for a reason: they are generally intelligent, well-spoken, likable people who have gotten to where they are, in part, because people enjoy listening to them and being around them.

That makes it hard for investors to parse out who the good managers are versus the bad ones; there is one way to find out from people who know best: the employees. One indicator we find helpful when analyzing companies is to see what people are saying, and how they rate their organization and management.

A research paper from Georgetown University showed that aggregate employee ratings about their employer are an excellent predictor of future stock returns. The authors found that companies in the top third of Glassdoor ratings outperformed those in the bottom third by an average of 0.84% per month or approximately 10.8% per year.[6]

Edmans (2011) found evidence that Fortune magazine's "100 Best Companies to Work For" tend to be persistent outperformers, highlighting that the market tends to underappreciate the impact that satisfied employees and, by extension, quality management can have on a company over the long-term.[7]

When we look at that list from 2024, you might notice some familiar names: NVIDIA (NVDA), Accenture (ACN), Cadence Design Systems (CDNS), Intuit (INTU), Adobe (ADBE), Progressive (PGR), Visa (V), Merck (MRK), Mastercard (MA), and W.W. Grainger (GWW).

## ESSENTIAL

And, finally, we're looking for companies that provide products and services that are essential to our daily lives.

During the COVID-19 crisis, The Harris Poll conducted a survey of 2,032 Americans about what they thought were the most essential companies in the United States. The U.S. Postal Service came in at #1, but you may notice some of these companies included in your portfolio, either now or in past years: UPS, Microsoft, Apple, The Home Depot, UnitedHealth Group, McDonald's, Costco, and PepsiCo.[8]

These are the companies that, even during a global pandemic, were at the top of peoples' minds for providing things that they still needed to buy and use every day. Those things were essential to their lives, regardless of disruptions to the economy. By investing primarily in companies that make the list, either officially or unofficially, we can insulate against recession as much as possible while still retaining exposure to long-term economic expansion and prosperity.

## CONCLUSION

While we do focus on quality companies in all market environments, we're honing in our emphasis on those quality companies with these P-R-I-M-E characteristics. Not every company checks every box, but we've analyzed each company through that lens and believe your portfolios are well-positioned to survive, even thrive, and take market share from their less-quality competitors, no matter what economic storms may be ahead.

As always, we thank you for the opportunity to serve you and your family. If you have any questions or comments, please reach out to your advisor team; we would love to talk to you more about your portfolio and ways to insulate it from whatever may be ahead in 2025.

*4 ,5 AllianceBernstein "The Hunt for Quality: Searching for Durable Stocks in Uncertain Times", 2021*
*6, 7 T.C. Green, R. Huang and Q. Wen et al., Crowdsourced employer reviews and stock returns, Journal of Financial Economics, https://faculty.georgetown.edu/qw50/EmpReviews.pdf*
*8 https://theharrispoll.com/briefs/the-harris-poll-releases-list-of-100-essential-companies-tied-to-corporate-response-to-covid-19-pandemic/*

# Social Security Fairness Act: Restoring Benefits for Public Servants

The Social Security Fairness Act, signed into law on January 5, 2025, brings significant changes to Social Security benefits for those impacted by the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

## *KEY CHANGES*

### 1 ELIMINATION OF WEP & GPO

The Act eliminates both the WEP and GPO provisions, restoring full Social Security benefits to those previously affected.

- **Windfall Elimination Provision (WEP)**
  This provision reduced the Social Security benefits of individuals who received pensions from jobs not covered by Social Security.

- **Government Pension Offset (GPO)**
  This provision affected spousal or survivor benefits for individuals who received a government pension from non-Social Security-covered employment.

### 2 Retroactive Payments

The Social Security Administration has begun expediting retroactive payments, with most beneficiaries expected to receive them by the end of March 2025. These payments cover the period from January 2024, when the WEP and GPO were nullified, to the present. For many, this will result in a substantial lump-sum payment, providing a significant financial boost.

### 3 Increased Monthly Benefits

Starting in April 2025, beneficiaries will see an increase in their monthly Social Security benefits. The exact amount will vary depending on factors such as the type of Social Security benefit received and the amount of the individual's pension. This increase will enhance retirement income and improve overall retirement security for many affected individuals.


## *NEXT STEPS*

If you haven't filed for Social Security because you believed these reductions would eliminate your benefit, apply as soon as possible to start collecting the benefits that are owed to you.

## *HOW WE CAN HELP*

If you are affected, contact your advisor so they can incorporate these changes into your financial plan.

This may involve:

- recalculating retirement income projections.
- reallocating investment accounts.
- adjusting withdrawal strategies from investment accounts.

It is also important to consider the tax implications of receiving retroactive payments and increased monthly benefits. Both are taxed like other Social Security benefits, with up to 85% of that income being taxable.

Your team at DCM can help you navigate these topics to help ensure you make the most of your benefits.

# Could the Income Builder Strategy Benefit Your Family or Friends?

The Income Builder strategy is designed for investors who want a steady and generous income while still benefiting from stock growth. It focuses on well-established, dividend-paying companies and targets a portfolio yield of around 4%. This makes Income Builder ideal for those needing income to cover expenses without depleting their principal. While there are risks associated with higher-yielding stocks, this strategy also offers opportunities to diversify portfolios and benefit from market changes.

## Income-Focused Investors

For investors who depend on consistent cash flow, the Income Builder strategy is a great option. This includes retirees, semi-retirees, or anyone looking to add to their income. By focusing on a higher current income, this strategy helps investors cover essential expenses like housing, healthcare, or daily living costs while still benefiting from the long-term growth of stocks. However, it's important to note that the higher yields come with more risk, as companies offering high dividend yields often have more debt and are more sensitive to interest rates.

## Contrarian & Opportunistic Investors

This strategy could be suitable for investors looking to benefit from temporary market dislocations. It focuses on buying well-established, dividend-paying companies currently out of favor and offering higher-than-normal dividend yields. The goal is to profit on mean reversion, where undervalued companies eventually recover as the market corrects its view or management makes changes. This approach provides potential for capital growth and a generous income stream for investors while waiting for recovery.

## A Complement to a Growth-Focused Portfolio

Growth stocks are often more sensitive to market changes. While high-dividend yield stocks face their own unique risks, they are often less affected by market fluctuations like those in the S&P 500. When added to a growth-oriented portfolio, Income Builder can provide diversification in periods of market stress, bringing balance to the portfolios of growth-focused investors.

## Why Choose This Strategy?

The Income Builder strategy is well-suited for investors across the spectrum. While focused on generating a reliable and robust income stream, there are other benefits that investors may find attractive. Income-focused individuals can rely on it for steady cash flow, while contrarian investors may see opportunities in undervalued stocks with recovery potential. Others may find it helpful as a source of diversification for a larger portfolio. Though it involves risk, it aims to provide a balanced approach to both income generation and potential capital appreciation.

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