
2010: YEAR IN REVIEW

From the desk of: Will Williams, President
David Vaughan Investments, Inc.

NOTHING ENDURES BUT CHANGE

In 2010, we set in motion the biggest change in DVI history: recapitalizing the firm and providing management shareholders with a majority of the voting stock. These changes will benefit our clients in many ways. As an independently owned private firm, DVI can continue to foster a client-first culture based on honesty, integrity and Quiet Quality. We can take the time to understand each client's unique situation and will remain small and nimble enough to respond to client concerns with urgency and professionalism. And finally, because our leadership team has a significant financial stake in the firm's future, we will be highly motivated to attract and retain new associates whose passion, commitment and resourcefulness will be critical factors in helping our clients prosper for generations to come.

Since the change was announced, we have received overwhelming support from our clients and strategic partners. We have also been asked a lot of questions, the primary one being why we chose the path we are on. Let me try to answer that here.

My colleagues and I began the process with a singular objective: charting a course to the future that would allow us to continue providing the highest level of service to DVI clients. We hoped to carry our founder's legacy forward, perpetuating an organization that could consistently provide thoughtful and unbiased investment advice and counsel. As we considered the options, we looked for best practices in ownership transition in the investment advisory business. Unfortunately, success stories proved to be few and far between.

The predominant exit strategy was sale to a larger organization, but we found that in most instances the acquired firms were significantly less successful once fully integrated into the larger institution. In instances when an internal ownership transition had taken place, the outcome was not much better. Common problems included new leaders that had not been properly groomed, clients and investment processes that had not been institutionalized, and the stresses and strains associated with financing ownership transition. ☒

Determined to avoid these mistakes, we moved forward with a plan, letting three principles guide the process:

- Control of the firm must rest in the hands of its principal decision makers. The real value of the firm walks out the door every day. If we expect these key individuals to think like owners, they must indeed be owners.
- Major stockholders will be required to recycle their shares to the next generation with full knowledge that private market valuation discounts will apply. The process of passing the business forward cannot just be about maximizing economic gains. It must also provide clients and the firm with the best opportunity for success over the long-term.
- Current owners will only realize long-term economic gains by recruiting and retaining a new generation of leaders that will manage the firm and its clients' assets successfully.

It was both challenging and rewarding to chart a new course for DVI, and although we are glad the process is behind us, we feel confident about what lies ahead. Here is where things stand today.

- Management shareholders own the majority of the voting stock.
- A new Stock Appreciation Rights plan will permit additional ownership by both management shareholders and investment professionals alike.
- The Vaughan family maintains an equity position and intends to do so for the foreseeable future.
- The Board of Directors has been restructured and will include two representatives from the Management Committee, one Vaughan family member and three outside directors who will share veteran industry perspective and expertise.

It has always been easy for me to be confident in DVI's future as I have been blessed to be surrounded by colleagues that I trust, respect and greatly admire. Going forward, the DVI Management Committee will provide firm-wide leadership and strategic direction. It is my privilege to lead this team of professionals which includes: Brian A. Christensen, CFA, Patrick J. Smarjesse, CEBS, Todd M. Sheridan, CFA, and James D. Sinclair, CPA.



(left to right): Patrick Smarjesse, James Sinclair, Will Williams, Todd Sheridan, and Brian Christensen

LESSONS LEARNED IN 2010

I believe it's valuable to take a good look at the road we've just traveled and see what we can learn from the experiences we have had along the way. As I reflect on the past year, a few key lessons come to mind.

TRUST IS THE FOUNDATION FOR GROWTH

Despite the volatility of the market, DVI clients continued to put their trust in our team and the investment philosophy we advocate. We sincerely appreciate their loyalty and will strive to keep earning it every day. Because our relationship is grounded in trust, most clients stayed in the market during the first eight months of the year, even though the S&P 500 was down about 5 percent and the headlines contained nothing but negative news. Staying put proved to be a good decision, however, because during the last four months of 2010, the market recovered by nearly 20 percent, strengthening the portfolios of patient, disciplined investors.

THE BEST OFFENSE REALLY IS A GOOD DEFENSE

How do you win in a market as unpredictable as this one? Some contend that an aggressive offense based on market timing is the key to building wealth. Although that strategy sounds appealing, it is extremely difficult to execute. At DVI, we remain sold on the value of a strong defense. We encourage clients to invest for the long-term in industry-leading, dividend-paying, value-oriented companies. Those who took that advice were essentially paid to wait through the dark days of 2010. With dividends in hand, they had the confidence to stay in the market while others sat on the sidelines, and they were therefore in a solid position to finish the year strong.

PERCEPTION DOESN'T ALWAYS EQUAL REALITY

Over the past few years, many investors have begun to perceive U.S. domestic equities as a high-risk proposition. This perspective is based on the 2008 Bear Market and the so-called Lost Decade (the 10-year period ending December 31, 2009, in which the S&P 500 earned a negative total return). As equities lost their luster, some investors turned to asset classes that have performed well since 2000—commodities, precious metals and emerging market stock funds—and began viewing them as less risky alternatives. The irony is that these asset classes have historically demonstrated significantly more price risk than domestic equities. But that is not the common perception today.

EVERY CONTRIBUTION MATTERS

We were reminded of the important role every team member plays at DVI when we lost a dear friend and long-time associate in 2010. Richard Brown maintained our building and grounds for nearly two decades and did so with a smile on his face, a story to tell and a twinkle in his eye. Although his top priority was caring for our facility as if it were his own home, he was always willing to take on other jobs in order to help the team provide a better client experience. We miss Richard, appreciate his contribution and are grateful for the many years we were privileged to work with him.

FOCUS ON THE WINDSHIELD

The time has come to set our sights on the journey ahead. 2011 is off to a good start and promises to be another year in which we will make significant investments in people, infrastructure and technology in order to continue providing the highest-caliber investment advice and client service. We will work shoulder to shoulder with our clients' professional advisors, seeking effective solutions and pursuing opportunities together. And most importantly, despite the firm's major change in ownership and governance, we will continue to do business the way we always have—with integrity and accountability—putting clients first and serving as good stewards of their wealth.

Thank you for entrusting your future to DVI.



Quiet Quality

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