

INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants

April 11, 2019

Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report

Enclosed is your Plan Summary Report for the quarter ending 3-31-2019, covering your mix of funds. This past 3-month period ending March 31 was up dramatically for the overall U.S. stock market and up significantly for the aggregate international stock markets, and also up solidly for the overall U.S. bond market. According to Lipper Fund Services, the average U.S. stock mutual fund's first quarter 2019 total return was +13.3%, and the S&P 500 Index was up +13.6% for the first quarter. For the 12 months ending 3-31-2019 the S&P 500 Index was up +9.5%. According to Morningstar™ all of your funds have performed solidly-to-well for both 5 and 10 years relative to similar “peer group” funds. Your passive “index funds” (versus actively-managed funds) strive to mirror their indices’ performances at all times -- no more, no less.

Relative to similar “peer group” funds, your fund mix has continued to perform well on average over the past 12 months ending 3-31-2019 – 4 funds within the top 25% of their peer groups’ funds and 0 funds within the bottom 25% of their peer groups’ funds. For the past 12 months ending 3-31-2019 (with the S&P 500 Index up +9.5%) three of your six domestic stock-oriented funds were either within 0.7% or outperformed the S&P 500 Index.¹ For this time period the place to be invested was in U.S. growth-oriented companies of all sizes (including many large U.S. companies, which make up the S&P 500 Index). Your top performing fund was the T. Rowe Price Capital Appreciation Fund at a +12.1% total return for the 12 months ending 3-31-2019, and your Harbor Bond Fund returned +4.1% for the same 12-month period.²

[Note: To put your funds’ returns into perspective during the past five years’ market conditions, your 7 stock-oriented funds have annualized total returns (compounded each year) of between +2.6% & +12.2% for the past 5 years ending 3/31/2019. This compares to a strong +10.9% annualized total return for the S&P 500 Index for the same 5-year period: 2 of your 7 stock-oriented funds were within 0.6% or exceeded the S&P 500 Index’ return for this 5-year period. Your foreign large cap fund lagged dramatically – as most foreign stock funds dramatically lagged U.S. stock funds for this period, see footnote #1 below.]

¹ According to Lipper (4/8/2019 Wall Street Journal), for the past 12 months ending 3/31/2019 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +9.5% versus -4.5%. One of your stock-oriented funds is a foreign/international fund. For the 5-year period ending 3/31/2019 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +10.9% versus +2.9%.

² According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +2.3% for the previous 12 months ending 3/31/2019.

1st QUARTER, 2019 PLAN SUMMARY REPORT – BROASTER COMPANY

Prepared by: *Investment Consultants (an affiliate of Compensation & Capital)*

Revisiting and Revising Some Planning Issues for All of Us

Many of you who read this are successful, dedicated 401(k) Plan investors. To retire comfortably, it has always been important to have a Financial Plan for today and for the future; but it may never have been as important as it is now! From the April 2019 Money magazine article titled, “The Trap That Could Quietly Kill Your Retirement”, by Alix Langone -- two excerpts follow: (1) “When starting a higher-paying job or receiving a bonus, it’s only natural to want to reward yourself for working hard. ... There’s a term for this dollar-in, dollar-out mentality – ‘lifestyle inflation’ – and financial advisors call it a huge missed opportunity that could damage your financial security in retirement.” In other words, people waste the chance to save more, as their earnings increase. and (2) “According to a report from Vanguard, the median retirement account balance ¹ for people of all ages was just \$26,331 in 2017.” Separately, an online article from last summer stated that “According to the Bureau of Labor Statistics, only about 55% of the American workforce has access to a 401(k) and only about 38% of the total workforce participate.” The above, along with the realities that so many baby boomers are retiring and that the swollen National Debt that has already grown significantly since the recession of 2008, and continues to grow, will eventually have a significant negative impact on the ability of the Social Security System to pay future retirees at current levels, and it will adversely affect the funding of many other “entitlement programs”. This makes it increasingly important for each of us to provide for our own retirement. Following are some “financial planning thoughts” that I hope are helpful and thought-provoking to you:

- Some updated statistics, and “performance reference frames” for some major investment categories – for the 49 years (1/1/1970-12/31/2018) ²: the average nominal return for Large U.S. Equity = 10.21% [S&P 500] and the returns were positive 80% of the years; Small U.S. Equity = 10.60% [combination of an Ibbotson Index and the Russell 2000] and the returns were positive 69% of the years; Non-U.S. Equity = 8.42% [MSCI EAFE Index] and the returns were positive 69% of the years; and U.S. Bonds = 7.37% [combination of an Ibbotson and a Barclays Index] and positive 94% of the years.
- Whatever Financial Plan you develop must be dynamic. It should be broad-based, grounded in reality, and you must be able to track its progression. For a Financial Plan to be successful it must *evolve* as your family moves through different stages of life, and your family’s involvement is imperative to the success of a Plan. When family members understand (and ideally agree upon) priorities, it gives focus and minimizes conflicts. [If you have a plan in your head, it’s a wish. If you write it down, it’s a plan.]
- To reach success in attaining financial independence during retirement, saving is every bit as important as investing. Critical to successful saving is “living within your means”, pre- and during retirement.
- Doing whatever you can to stay physically healthy is tantamount to financial success.
- Responsible use of credit is very important – use credit cards for convenience, *not* for financing your lifestyle. Create an “emergency fund” for possible job loss, home upkeep and car replacement.
- Many financial experts suggest that Life Insurance (particularly “Term Life Insurance”) be properly used to support your dependents in the case of your death. It should *not* be used as an investment.
- Consider Disability Insurance (for protection during working years) and Long Term Care Insurance (purchased while still working, but predominantly for protection during retirement years).
- There is a large body of research that has shown that people are far more motivated to avoid a loss than to rack up an equally large gain. Such “loss aversion” can affect the way that many people invest. A way to approach this (a “trick” of sorts) that can help investors use this “loss aversion” to their advantages is – reframing a potential gain as a “more painful” potential loss. For example, as related to company matches available in a 401(k) Plan, frame/consider any match that you fail to capture (below the maximum company match) as a loss, and not merely as a gain that you missed out on.

¹ The middle retirement account balance. For example, out of 10 million investors with account balances, the median would be the person having the 5 millionth largest account balance (which is, of course, also the 5 millionth smallest balance).

² From an article in the February 2019 Financial Planning magazine titled “Countering a ‘Sell Everything’ Call”, by Craig L. Israelsen. As always, past performance is NOT a guarantee of future performance.

BROASTER COMPANY - 1st Quarter, 2019 Plan Summary Report

Funds' Performances for Periods Ended March 31, 2019

The following report is intended to help you in evaluating your investments ¹, and in selecting your mix of mutual funds for the future. The average diversified U.S. stock mutual fund's first quarter 2019 total return was +13.3%; and for the 12-month period ending March 31, 2019, the total return was +4.6%. [For 12 months: the S&P 500 index returned +9.5%; the small-cap stock index returned +2.0% ²; & the Dow Jones World (ex. U.S.) Index returned -4.5%]. The 3-month total return for intermediate-term U.S. bonds was +2.9%, taking the previous 12-month return to +2.3%. Lastly, (US taxable, per Morningstar) money market funds' average total return was +1.7% for the previous 12 months. Remember that one quarter does *not* make your retirement investing a success or a failure, nor does it insure success or failure for the next quarter -- investing is a long-term proposition.

Fund Type	Periods Ended March 31, 2019:		Fund Ranking ⁴	
	1-Year Total Return (Growth of \$1,000) ³	5-Year Average Return	5 Years	10 Years
Stock-oriented:				
Large Cap Funds:				
(Fidelity Contrafund)	+8.8%	12.2%	42	45
[NASDAQ Code = FCNTX] [LG] ⁵	(\$1,088)			
(Vang Total Stock Market Index/Adm)	+8.8%	10.3%	27	10
[NASDAQ Code = VTSAX] [LB]	(\$1,088)			
(Vanguard Equity-Income/Adm)	+7.6%	9.4%	11	14
[NASDAQ Code = VEIRX] [LV]	(\$1,076)			
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm)	+6.0%	8.9%	11	11
[NASDAQ Code = VIMAX] [MB]	(\$1,060)			
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl)	+10.4%	9.3%	36	27
[NASDAQ Code = LSSIX] [SG]	(\$1,104)			
(Vanguard Tax-Mged Small Cap/Adm)	+1.6%	8.4%	5	9
[NASDAQ Code = VTMSX] [SB]	(\$1,016)			
International Fund:				
(T. Rowe Price Overseas Stock)	-6.4%	2.6%	30	14
[NASDAQ Code = TROXX] [LB]	(\$936)			
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation)	+12.1%	10.1%	1	1
[NASDAQ Code = PRWCX] [LG]	(\$1,121)			
Bond-Oriented Funds:				
(Harbor Bond Institutional) ⁶	+4.1%	2.9%	24	45
[NASDAQ Code = HABDX]	(\$1,041)			
(Templeton Global Bond Adv) ⁷	+2.1%	1.9%	29	20
[NASDAQ Code = TGBAX]	(\$1,021)			
(Vanguard Sht-Term Inv-Grade/Adm)	+3.7%	2.1%	16	18
[NASDAQ Code = VFSUX]	(\$1,037)			
Money Market Fund:				
(TD Bank USA Institutional MMDA)	+0.4%	0.1%	(-N/A-)	
[NASDAQ Code = N/A]	(\$1,004)			

BROASTER COMPANY - 1st Quarter, 2019 Plan Summary Report

(continued)

Endnotes:

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- ¹ Remember that past performance is absolutely *not* a guarantee of future performance.
- ² Russell 2000 Index. All statistics in this paragraph are from the Wall Street Journal (Source: Lipper).
- ³ If an investor had put \$1,000 into each fund on March 31, 2018, one year later (on March 31, 2019) each fund would have been worth the amount in italics and parentheses below.
- ⁴ Example -- “35” below means that the fund ranked in the top 35% in investment performance, as compared to funds with a similar investment style or objective, for the 5-year period or for 10 years ending March 31, 2019. This is commonly stated as “the fund ranked in the 35th percentile of its peer group.” For percentile rankings, lower is better – a 35th percentile fund outperformed 65% of peer group funds for the time period stated. Data supplied by Morningstar.
- ⁵ The following categories are as defined by Morningstar. Small Cap, Mid Cap, and Large Cap refer to the average size of the companies whose stock is held in the fund. For your stock funds (and the stock holdings of your allocation fund): [first letter] L = Large Cap, M = Mid Cap, S = Small Cap; [second letter] G = Growth, V = Value, B = Blend (Value/Growth). Example – *[LV]* means a large cap, value style. A “Value” style means that typically the fund portfolio manager buys stocks that he/she thinks will both grow in price *and* currently can be purchased at a price that is a good value. A “Growth” style manager focuses on buying stocks that are anticipated to grow in price, regardless of the current price of the stock (that is, even if based on historical standards, the stock price seems expensive already). An “Allocation Fund” is a “balanced fund” that holds a mixture of predominantly U.S. stocks and fixed income securities (e.g., bonds and money market securities). A “Foreign or International Equity” fund holds predominantly non-U.S. stocks, whereas a “World Stock” fund holds non-U.S. and U.S. stocks.
- ⁶ Morningstar categorizes the Harbor Bond Fund as an “intermediate-term bond fund”. Over time it is diversified across various bonds, including corporate and government bonds.
- ⁷ Morningstar categorizes the Templeton Global Bond Fund as a “world bond fund”. Over time it is diversified across various geographies worldwide.