

INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants

July 15, 2018

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

Enclosed is your Plan Summary Report for the quarter ending 6-30-2018, covering your mix of funds. This past 3-month period ending June 30 was up somewhat for the overall U.S. stock market and down somewhat for the aggregate international stock markets, and down slightly for the overall U.S. bond market. According to Lipper Fund Services, the average U.S. stock mutual fund's second quarter 2018 total return was +3.7%, and the S&P 500 Index was up +3.4% for the second quarter. For the 12 months ending 6-30-2018 the S&P 500 Index was up +14.4%. According to MorningstarTM all of your funds have performed 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 6-30-2018 – 6 funds within the top 25% of their peer groups’ funds and 1 fund within the bottom 25% of its peer group’s funds. For the past 12 months ending 6-30-2018 (with the S&P 500 Index up +14.4%) four of your six domestic stock-oriented funds outperformed the S&P 500 Index.¹ For this time period the place to be invested was in U.S. growth-oriented stocks (U.S. companies that lean toward being relatively more aggressive). Your top performing stock-oriented fund was the Loomis Sayles SmCap Growth Institutional Fund at a +27.4% total return for the 12 months ending 6-30-2018, and your Vanguard Short-Term Investment Grade Admiral (bond) Fund returned +0.2% for the same 12-month period.²

[Note: To put your funds’ returns into perspective during the past five years’ “up” market conditions, your 7 stock-oriented funds have annualized total returns (compounded each year) of between +7.1% & +16.0% for the past 5 years ending 6/30/2018. This compares to a robust +13.4% annualized total return for the S&P 500 Index for the same 5-year period: 4 of your 7 stock-oriented funds were within 0.2% or exceeded the S&P 500 Index’ return for this 5-year period – all of your domestic stock-oriented funds were above +11.2% annualized. 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 (7/8/2018 Wall Street Journal), for the past 12 months ending 6/30/2018 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +14.4% versus +7.7%. One of your stock-oriented funds is a foreign/international fund. For the 5-year period ending 6/30/2018 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +13.4% versus +6.6%.

² According to Morningstar, the average intermediate-term (U.S.) bond fund total return was -0.4% for the previous 12 months ending 6/30/2018.

2nd QUARTER, 2018 PLAN SUMMARY REPORT – BROASTER COMPANY

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

Who Is In Control of Your Retirement? – It Better Be YOU!!

Will Social Security be enough?

I am often encouraged during Retirement Plan Participant Education sessions, when one or several people come up to me afterwards to talk about their retirement savings. These people are “engaged in” and appear to “take responsibility for” their retirements. It is important that they do. A concern is that many do not! As reported in a recent article regarding 401(k) retirement balances – “The reality is that the median account balance in the U.S. is only around \$72,000 for 55-64 year olds according to Vanguard, one of the largest 401k managers. The average 401k balance for 55-64 year olds is roughly \$178,000.”

What do these two terms (median & average) mean -- \$178,000 is very different than \$72,000? Example – let’s assume that your Plan has only five Plan participants having Plan balances as follows: \$10,000; \$20,000; \$30,000; \$140,000; and \$200,000. The median account balance is the middle number (listed from lowest to highest), which is \$30,000. The average 401k balance is \$80,000 (add up all five dollar amounts and divide by five).

So, the above 2016 Vanguard statistics are saying – out of all of the participants in all of the 401(k) Plans that they work with; the median account balance for a 55-64 year old participant was around \$72,000 (the middle person in a list of participants listed from those having the smallest to the largest account balances), while the average account balance for a 55-64 year old participant was around \$178,000. Stated differently, there are a significant number of participants who have a lot of money in their 401(k) Plans, which moves the average calculation well above the median (middle) account balance. Importantly, half of these older participants have \$72,000 or less in their account balances! The article referenced above goes on to say, “Even with \$178,000 in your 401k at retirement age, you aren’t going to be living it up for the next 20-30 years without alternative sources of income.” One of these other sources of income is Social Security.

It is unlikely that Social Security alone is enough for many future retirees to retire at a level near their current standards of living; and, if anything, Social Security will provide less in the future than it does today. Two important things that will most likely lessen the future benefit level of Social Security: (1) the \$21 trillion “National Debt” [\$21,000,000,000,000 – a lot of zeros] ¹; & (2) the fact that in 2015, the U.S. had 4.06 workers per retiree, and by 2030, this ratio is expected to be 2.73. ² This means that significantly less workers (taken to be the population from 20 to 64) will be paying taxes to the government supporting retirees (taken to be the population of age 65 and above). These two items suggest that it is probably unlikely that the Social Security System will be as valuable to many future retirees as it is today.

So what? Should those of us not currently having large Retirement Plan balances just give up?

Giving up is certainly NOT the intended message here! But neither is the message -- just hope that everything works out well, without each of us being “engaged in”, and “taking responsibility for” our retirement. One very important action to strengthen our retirement futures follows → if at all possible, from now on, contribute as much as possible to your Retirement Plan. If you have a company match, contribute at least up to the percentage of your earnings that gets you the maximum company match. ³ Some of your employers may contribute an annual profit sharing contribution, which is great.

¹ As of April 30, 2018, debt held by the public was \$15.3 trillion and intragovernmental holdings were \$5.7 trillion, for a total or “National Debt” of \$21 trillion. Debt held by the public was approximately 77% of GDP in 2017, ranked 43rd highest out of 207 countries. The Congressional Budget Office forecast in April 2018 that the ratio will rise to nearly 100% by 2028, perhaps higher if current policies are extended beyond their scheduled expiration date. As of December 2017, \$6.3 trillion or approximately 45% of the debt held by the public was owned by foreign investors, the largest being China (about \$1.18 trillion) then Japan (about \$1.06 trillion). [Source: Wikipedia]

² According to the United Nations, Department of Economic and Social Affairs, Population Division (2017).

³ About one in four Americans miss out on an estimated \$1,336 a year because they aren’t contributing enough to get the full employer match. [Source: smartasset.com] Also, the government allows participants who are 50 and older to contribute \$6,000 more a year to “catch up”.

BROASTER COMPANY - 2nd Quarter, 2018 Plan Summary Report

Funds' Performances for Periods Ended June 30, 2018

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 second quarter 2018 total return was +3.7%; and for the 12-month period ending June 30, 2018, the total return was +13.9%. [For 12 months: the S&P 500 index returned +14.4%; the small-cap stock index returned +17.6% ²; & the Dow Jones World (ex. U.S.) Index returned +7.7%]. The 3-month total return for the Barclays Aggregate Bond Index was -0.2%, taking the previous 12-month return to -0.4%. Lastly, (retail taxable) money market funds' average yield was +0.8% 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 June 30, 2018:		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) [NASDAQ Code = FCNTX] [LG] ⁵	+24.0% (\$1,240)	16.0%	29	38
(Vang Total Stock Market Index/Adm) [NASDAQ Code = VTSAX] [LB]	+14.8% (\$1,148)	13.3%	17	14
(Vanguard Equity-Income/Adm) [NASDAQ Code = VEIRX] [LV]	+9.8% (\$1,098)	11.3%	20	9
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) [NASDAQ Code = VIMAX] [MB]	+12.1% (\$1,121)	12.3%	20	38
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) [NASDAQ Code = LSSIX] [SG]	+27.4% (\$1,274)	13.6%	36	25
(Vanguard Tax-Mged Small Cap/Adm) [NASDAQ Code = VTMSX] [SB]	+20.3% (\$1,203)	14.5%	3	6
International Fund:				
(T. Rowe Price Overseas Stock) [NASDAQ Code = TROX] [LB]	+7.8% (\$1,078)	7.1%	17	18
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) [NASDAQ Code = PRWCX] [LG]	+8.4% (\$1,084)	11.0%	1	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) ⁶ [NASDAQ Code = HABDX]	+0.1% (\$1,001)	2.5%	30	24
(Templeton Global Bond Adv) ⁷ [NASDAQ Code = TGBAX]	-1.9% (\$981)	1.9%	36	3
(Vanguard Sht-Term Inv-Grade/Adm) [NASDAQ Code = VFSUX]	+0.2% (\$1,002)	1.8%	18	22
Money Market Fund:				
(TD Bank USA Institutional MMDA) [NASDAQ Code = N/A]	+0.1% (\$1,001)	0.0%	(-N/A-)	

(Endnotes on next page) →

BROASTER COMPANY - 2nd Quarter, 2018 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 June 30, 2017, one year later (on June 30, 2018) 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 June 30, 2018. 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 balanced 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.