INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants ***July 14, 2019***
Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report

Enclosed is your Plan Summary Report for the quarter ending 6-30-2019, covering your mix of funds. This past 3-month period ending June 30 was up modestly for the overall U.S. stock market and also up similarly for the aggregate international stock markets, and it was up solidly for the overall U.S. bond market, as well. According to Lipper Fund Services, the average U.S. stock mutual fund's second quarter 2019 total return was +3.4%, and the <u>S&P 500 Index was up +4.3% for the second quarter</u>. <u>For the 12 months ending 6-30-2019 the S&P 500 Index was up +10.4%</u>. 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 solidly on average over the past 12 months ending 6-30-2019 – 4 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 6-30-2019 (with the S&P 500 Index up +10.4%) two of your six domestic stock-oriented funds were at +9.0% or above.[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 stock-oriented fund was the T. Rowe Price Capital Appreciation Fund at a +15.2% total return for the 12 months ending 6-30-2019, and your Harbor Bond Fund returned +7.7% 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 +2.2% & +12.5% for the past 5 years ending 6/30/2019. This compares to a strong +10.7% annualized total return for the S&P 500 Index for the same 5-year period: 3 of your 7 stock-oriented funds were within 0.5% 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.]

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1 According to Lipper (7/9/2019 Wall Street Journal), for the past 12 months ending 6/30/2019 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +10.4% versus +0.6%. One of your stock-oriented funds is a foreign/international fund. <u>For the 5-year period ending 6/30/2019 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +10.7% versus +2.5%</u>.

2 According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +4.3% for the previous 12 months ending 6/30/2019.

2nd QUARTER, 2019 PLAN SUMMARY REPORT – BROASTER COMPANY

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

Retirement Investing – Part Science and Part Art and Part Psychology

Some items that follow are recurring themes. They are not designed to be controversial, dramatic, or over-the-top – e.g., "Breaking News as we come on the air tonight!" Being overly dramatic may be the "right way" to broadcast news; but for long-term investing, often consistency and avoiding drama are better ways to proceed. Very rarely do successful long-term investors continuously change their investing strategies and tactics. Following are some statistics and some investing philosophies/themes/cornerstones:

- Given the following updated statistics and "performance reference frames" for some major investment categories, why doesn't everyone invest only in stocks? For the 49 years (1/1/1970-12/31/2018) [1]: the average annualized return for <u>Large U.S. Equity = 10.21%</u> [S&P 500] and the returns were positive 80% of the years; <u>Small U.S. Equity = 10.60%</u> [combination of an Ibbotson Index and the Russell 2000] and the returns were positive 69% of the years; <u>Non-U.S. Equity = 8.42%</u> [MSCI EAFE Index] and the returns were positive 69% of the years; and <u>U.S. Bonds = 7.37%</u> [combination of an Ibbotson and a Barclays Index] and the returns were positive 94% of the years. Two prominent reasons that everyone doesn't invest only in stocks are – bonds are typically much less volatile/risky (e.g., bonds were never down -51% for a 16-month period, as was the S&P 500 Index from 11/1/2007-2/28/2009); and, related to this, see the next "bullet" item below.
- The U.S. stock market has been up dramatically for the past 10-year period. Because no one knows for sure what will happen in the stock market, nor when, I have asked many individual investor clients the following question: First, let's assume that the stock market is going to move 20-25% over the next year or so, but we don't know which way – "up" *or* "down"! Which do you consider more important (or "less troubling") to you: (1) if the stock market <u>drops 20-25%</u> and, *by investing more conservatively* (less in stocks), you *avoid much of the drop*; or (2) the stock market <u>goes up 20-25%</u> and, again by investing more conservatively, you *miss much of the market rise*? Oftentimes two significant variables that affect this answer are one's age and how much savings he/she has already accumulated. For example, <u>if you are young</u> and you feel you need to grow your savings substantially over time, you might be more willing to invest a larger portion of your money in more volatile investments such as stocks, knowing that you have many more years of "up" and "down" markets before you retire. <u>If you are closer to retirement</u>, with substantial savings, safety and stability may be the key.
- Oh, for those "good old days" of 11/1/2007-2/28/2009! What!?! Didn't I just give you the statistic in the first "bullet" item above that for that 16-month period, the <u>S&P 500 Index was down -51%</u>? Yes, but think about the low prices at which an investor was able to buy many stock mutual funds, at the end of February 2009, when stock prices were so low? Continuing, from 3/1/<u>2009</u> through 6/30/<u>2019</u>, the S&P 500 Index (representing the 500 largest U.S. companies' stock prices) was up +357%! Said differently, a $10,000 investment made 3/1/2009 would have been worth $45,700 on 6/30/2019! In other words, even though none of us want our current account balances to go way down in value, the fact that we keep investing our future contributions in stock funds throughout "down periods" may work out well for us. So how does a long-term investor strike a balance between "protecting account balances" & "investing for the long term"? See next bullet item.
- ***An Approach to Consider***:[2] One way that some investors have dealt with their past successes (and/or their concerns/fears of a future stock market slump) is by *shifting a portion* of their *existing stock investment balances toward more conservative funds* such as balanced funds (a mixture of stocks & bonds), bond funds, and money market funds. As the investors adjust to become <u>more conservative with their existing account balances</u>, the same investors also shift their *future purchases from ongoing contributions more toward stock funds*, thereby actually getting <u>more aggressive with their future purchases</u>. If the stock market was to drop significantly, these investors would be buying future stock funds at lower prices – a good thing. All the while their "now-more-conservatively invested" existing account balances should shield them from what would have otherwise been "more severe" short-term stock market losses.

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[1] From an article in the February 2019 <u>Financial Planning</u> magazine titled "Countering a 'Sell Everything' Call", by Craig L. Israelsen. As always, past performance is NOT a guarantee of future performance.

[2] In the language of investing, stocks are considered more aggressive than bonds because they typically fluctuate more in value over time. An investment that has greater fluctuations (or "volatility") is said to be more risky.

BROASTER COMPANY - 2nd Quarter, 2019 Plan Summary Report
Funds' Performances for Periods Ended June 30, 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 second quarter 2019 total return was +3.4%; and for the 12-month period ending June 30, 2019, the total return was +4.4%. [For 12 months: the S&P 500 index returned +10.4%; the small-cap stock index returned -3.3% [2]; & the Dow Jones World (ex. U.S.) Index returned +0.6%]. The 3-month total return for intermediate-term U.S. bonds was +2.3%, taking the previous 12-month return to +4.3%. 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, 2019: 1-Year Total Return *(Growth of $1,000)* [3]	5-Year Average Return	Fund Ranking [4] 5 Years	10 Years
Stock-oriented:				
Large Cap Funds:				
(Fidelity Contrafund) *[NASDAQ Code = FCNTX] [LG]* [5]	+7.9% *($1,079)*	**12.5%**	**37**	37
(Vang Total Stock Market Index/Adm) *[NASDAQ Code = VTSAX] [LB]*	+9.0% *($1,090)*	**10.2%**	**27**	9
(Vanguard Equity-Income/Adm) *[NASDAQ Code = VEIRX] [LV]*	+9.7% *($1,097)*	**9.0%**	**11**	8
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) *[NASDAQ Code = VIMAX] [MB]*	+7.8% *($1,078)*	**8.8%**	**12**	6
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) *[NASDAQ Code = LSSIX] [SG]*	+6.5% *($1,065)*	**11.2%**	**26**	15
(Vanguard Tax-Mged Small Cap/Adm) *[NASDAQ Code = VTMSX] [SB]*	-4.7% *($953)*	**8.4%**	**8**	5
International Fund:				
(T. Rowe Price Overseas Stock) *[NASDAQ Code = TROSX] [LB]*	-3.0% *($970)*	**2.2%**	**42**	19
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) *[NASDAQ Code = PRWCX] [LG]*	+15.2% *($1,152)*	**10.3%**	**1**	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) [6] *[NASDAQ Code = HABDX]*	+7.7% *($1,077)*	**3.1%**	**36**	67
(Templeton Global Bond Adv) [7] *[NASDAQ Code = TGBAX]*	+5.6% *($1,056)*	**1.5%**	**26**	14
(Vanguard Sht-Term Inv-Grade/Adm) *[NASDAQ Code = VFSUX]*	+5.5% *($1,055)*	**2.3%**	**12**	20
Money Market Fund:				
(TD Bank USA Institutional MMDA) *[NASDAQ Code = N/A]*	+0.4% *($1,004)*	**0.1%**	(-N/A-)	

(Endnotes on next page) →

Endnotes:

[1] Remember that past performance is absolutely *not* a guarantee of future performance.

[2] Russell 2000 Index. All statistics, but one 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, 2018, one year later (on June 30, 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 June 30, 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, core-plus 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.