

**INVESTMENT CONSULTANTS**  
(A Registered Investment Advisor)

**From: Bill Gela, Investment Consultants**

**October 12, 2017**

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

*Enclosed is your Plan Summary Report for the quarter ending 9-29-2017, covering your mix of funds. This past 3-month period ending September 29 was up nicely for the overall U.S. stock market and for the aggregate international stock markets, and up somewhat for the overall U.S. bond market. Within the U.S. stock market, the diversified stock fund categories (as defined by Lipper investment styles and capitalizations) had returns of between +2.6% & +5.5% for the third quarter. According to Lipper Fund Services, the average U.S. stock mutual fund's third quarter 2017 total return was +4.2%, and the S&P 500 Index was up +4.5% for the third quarter. For the 12 months ending 9-29-2017 the S&P 500 Index was up +18.6%. According to Morningstar<sup>TM</sup> 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 9-29-2017 – 6 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 9-29-2017 (with the S&P 500 Index up +18.6%) four of your six domestic stock-oriented funds either matched or outperformed the S&P 500 Index.<sup>1</sup> For this time period the place to be invested was in U.S. growth-oriented companies (those stocks of U.S. companies that lean toward being relatively more aggressive) -- considering diversified mutual funds, not “sector” funds. Your top performing stock-oriented fund was the Loomis Sayles Small Cap Growth Fund at a +24.2% total return for the 12 months ending 9-29-2017, and your Templeton Global Bond Advisor Fund returned +13.2% for the same 12-month period.<sup>2</sup>*

*[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 +8.8% & +15.5% for the past 5 years ending 9/29/2017. This compares to a very robust +14.2% for the S&P 500 Index for the same 5-year period: 4 of your 7 stock-oriented funds either matched or exceeded the S&P 500 Index’ return for this 5-year period – all of your domestic stock-oriented funds were above +13.3% annualized (see footnote #1 below to put this into perspective). Your foreign large cap fund lagged dramatically -- most foreign stock funds dramatically lagged U.S. stock funds for this period, see footnote #1 below.]*

---

<sup>1</sup> According to Lipper (10/9/2017 Wall Street Journal), for the past 12 months ending 9/29/2017 all domestic diversified, non-specialty stock fund categories had returns between +14.3% & +20.1%. For the past 12 months the S&P 500 Index outperformed 9 of the 13 diversified domestic stock fund categories. One of your stock-oriented funds is a foreign/international fund. For the 12 months ending 9/29/2017 the International (ex-U.S.) stock fund category was up +18.5%. For the 5-year period ending 9/29/2017 all domestic diversified, non-specialty U.S. stock fund investment categories had annualized total returns of between +11.1% and +13.9%. [International (ex-U.S.) stock fund category = +7.9% per year.]

<sup>2</sup> According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was -0.3% for the previous 12 months ending 9/29/2017.

# 3rd QUARTER, 2017 PLAN SUMMARY REPORT – BROASTER COMPANY

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

## A Bit of This & That?

Periodically, in previous quarterly reports, we have noted some “financial planning thoughts” – for example:

- 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”. Developing a satisfactory and sustainable lifestyle *before* retirement is crucial to a successful retirement.
- 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 – consistently, but PATIENTLY. For a Financial Plan to be successful it must *evolve* as your family moves through different stages of life.
- 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 & car replacement.

Many of these “thoughts” to consider, although not easy, are generally under an individual’s control to implement. We all know that the financial markets are *not* under our control. Recently an incident that has been widely reported on by the media underscored another important area of our finances that is *not* entirely under our individual control – our personal data. The Equifax data breach represents yet another example of our heightened exposure to identity theft. It is quite alarming due to its scale (145.5 million Americans, as reported to Congress by the company’s ex-CEO), along with the fact that it was perpetrated against one of the three big credit-reporting companies (who gather a lot of our personal information). A great swath of the American adult population is now at increased risk for identity theft. Some “experts” argue that there is no need to panic, but certainly a heightened level of diligence is the order of the day for all of us. Regarding actions to take related to our computers, many experts recommend the following -- run a virus scan immediately, and then run a scan again *after* removing any malware from our computers. These actions are intended to limit fraudsters from accessing information on our computers. Once we know that we are working from clean systems, the experts advise that we should change all passwords associated with our accounts and websites that we access.<sup>1</sup>

Now to investing. In a recent PIMCO “Cyclical Outlook”, they point to a number of positives that could continue to move markets forward for the coming 6 to 12 months. This is followed by a section titled, “The ABCs of caution” (articulating many thoughts and concerns, which I share): “...once you start to look through the smooth macro surface at the underlying risks and uncertainties, there are a few problems that might pop up...and upset the eerie calm in financial markets. Apart from the obvious geopolitical threat emanating from North Korea, the most important macro uncertainties...are [1] the aging U.S. economic expansion, [2] the coming end of central bank balance sheet expansion (i.e., unwinding the previous economic/financial market stimuli), and [3] China’s political and economic course following the party congress [starting on October 18].”

So what is a long-term investor to do? Following are 2 fundamental, “building block” investment concepts, which we have discussed before: (1) Adjust your mix of stocks and bonds in a more conservative direction (bonds and money market funds versus stocks) or in a more aggressive, “risky” direction (toward stocks). The appropriate direction should be based on your market optimism and your timeframe for needing to use your account balances. & (2) Diversify your investments.<sup>2</sup>

---

<sup>1</sup> Obviously, this is not intended to be a comprehensive list of actions that we should each consider taking, but actions such as these are important. Some have suggested placing Fraud Alerts on our credit reports. A fraud alert only has to be placed and maintained with one credit bureau, not all three of the major ones (Experian, TransUnion, & Equifax). They share this information with each other. Presumably the Fraud Alert instructs the credit-reporting companies to further scrutinize anyone attempting to apply for credit associated with our names and social security numbers. Perhaps there will be extra questions during the identification process if we apply for credit, but we may very well feel better about being asked.

<sup>2</sup> Diversification means investing in different asset categories (such as stocks, bonds, and money market funds) and investing in various types of funds (such as U.S. large company growth funds, intermediate-term bond funds, and foreign developed markets stock funds) – that is, *not* putting all of your account balances into one type of investment.

## BROASTER COMPANY - 3rd Quarter, 2017 Plan Summary Report

### Funds' Performances for Periods Ended September 30, 2017

The following report is intended to help you in evaluating your investments <sup>1</sup>, and in selecting your mix of mutual funds for the future. The average diversified U.S. stock mutual fund's third quarter 2017 total return was +4.2%; and for the 12-month period ending September 29, 2017, the total return was +16.8%. [For 12 months: the S&P 500 index returned +18.6%; the small-cap stock index returned +20.7% <sup>2</sup>; & the average international (ex-U.S.) stock fund returned +18.5%]. The 3-month total return for taxable bond mutual funds averaged +1.1%, taking the average taxable bond fund total return to +2.9% for the previous 12 months. Lastly, (retail taxable) money market funds' average yield was +0.3% 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 September 30, 2017:		Fund Ranking <sup>4</sup>	
	1-Year Total Return (Growth of \$1,000) <sup>3</sup>	5-Year Average Return	5 Years	10 Years
<b>Stock-oriented:</b>				
<b>Large Cap Funds:</b>				
(Fidelity Contrafund) [NASDAQ Code = FCNTX] [LG] <sup>5</sup>	+23.2% (\$1,232)	<b>14.6%</b>	<b>36</b>	29
(Vang Total Stock Market Index/Adm) [NASDAQ Code = VTSAX] [LB]	+18.6% (\$1,186)	<b>14.2%</b>	<b>19</b>	14
(Vanguard Equity-Income/Adm) [NASDAQ Code = VEIRX] [LV]	+16.8% (\$1,168)	<b>13.4%</b>	<b>25</b>	6
<b>Mid Cap Fund:</b>				
(Vanguard Mid Cap Index/Adm) [NASDAQ Code = VIMAX] [MB]	+15.3% (\$1,153)	<b>14.4%</b>	<b>17</b>	34
<b>Small Cap Funds:</b>				
(Loomis Sayles SmCap Growth Instl) [NASDAQ Code = LSSIX] [SG]	+24.2% (\$1,242)	<b>13.8%</b>	<b>39</b>	21
(Vanguard Tax-Mged Small Cap/Adm) [NASDAQ Code = VTMSX] [SB]	+20.9% (\$1,209)	<b>15.5%</b>	<b>6</b>	9
<b>International Fund:</b>				
(T. Rowe Price Overseas Stock) [NASDAQ Code = TROXX] [LB]	+22.3% (\$1,223)	<b>8.8%</b>	<b>22</b>	24
<b>Allocation Fund – 50% to 70% Equity:</b>				
(T. Rowe Price Capital Appreciation) [NASDAQ Code = PRWCX] [LG]	+12.2% (\$1,122)	<b>12.3%</b>	<b>1</b>	1
<b>Bond-Oriented Funds:</b>				
(Harbor Bond Institutional) <sup>6</sup> [NASDAQ Code = HABDX]	+2.6% (\$1,026)	<b>2.5%</b>	<b>28</b>	10
(Templeton Global Bond Adv) <sup>7</sup> [NASDAQ Code = TGBAX]	+13.2% (\$1,132)	<b>3.0%</b>	<b>17</b>	2
(Vanguard Sht-Term Inv-Grade/Adm) [NASDAQ Code = VFSUX]	+1.3% (\$1,013)	<b>1.9%</b>	<b>11</b>	18
<b>Money Market Fund:</b>				
(TD Bank USA Institutional MMDA) [NASDAQ Code = N/A]	+0.0% (\$1,000)	<b>0.0%</b>	(-N/A-)	

(Endnotes on next page) →

## BROASTER COMPANY - 3rd Quarter, 2017 Plan Summary Report

(continued)

### Endnotes:

---

<sup>1</sup> Remember that past performance is absolutely *not* a guarantee of future performance.

<sup>2</sup> Russell 2000 Index. All statistics in this paragraph are from the Wall Street Journal (Source: Lipper).

<sup>3</sup> If an investor had put \$1,000 into each fund on September 30, 2016, one year later (on September 30, 2017) each fund would have been worth the amount in italics and parentheses below.

<sup>4</sup> 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 September 30, 2017. This is commonly stated as “the fund ranked in the 35<sup>th</sup> percentile of its peer group.” For percentile rankings, lower is better – a 35<sup>th</sup> percentile fund outperformed 65% of peer group funds for the timeperiod stated. Data supplied by Morningstar.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> Morningstar categorizes the Templeton Global Bond Fund as a “world bond fund”. Over time it is diversified across various geographies worldwide.