INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants ***October 11, 2018***
Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report

Enclosed is your Plan Summary Report for the quarter ending 9-30-2018, covering your mix of funds. This past 3-month period ending September 30 was up significantly for the overall U.S. stock market and slightly up for the aggregate international stock markets, and rather flat for the overall U.S. bond market. According to Lipper Fund Services, the average U.S. stock mutual fund's third quarter 2018 total return was +5.2%, and the <u>S&P 500 Index was up +7.7% for the third quarter</u>. <u>For the 12 months ending 9-30-2018 the S&P 500 Index was up +17.9%</u>. According to Morningstar™ 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 solidly on average over the past 12 months ending 9-30-2018 – 3 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 9-30-2018 (with the S&P 500 Index up +17.9%) four of your six domestic stock-oriented funds either outperformed or were within 0.3% of 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 Small Cap Growth Institutional Fund at a +29.8% total return for the 12 months ending 9-30-2018, and your Vanguard Short-Term Investment Grade Admiral (bond) Fund returned +0.3% 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 +5.0 % & +15.5% for the past 5 years ending 9/30/2018. This compares to a robust +13.9% annualized for the S&P 500 Index for the same 5-year period: 3 of your 7 stock-oriented funds were within 0.8% or exceeded the S&P 500 Index' return for this 5-year period – all of your domestic stock-oriented funds were above +11.6% 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.]

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1 According to Lipper (10/8/2018 Wall Street Journal), for the past 12 months ending 9/30/2018 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +17.9% versus +2.0%. One of your stock-oriented funds is a foreign/international fund. <u>For the 5-year period ending 9/30/2018 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +13.9% versus +4.6%</u>.

2 According to Morningstar, the average intermediate-term (U.S.) bond fund total return was +0.1% for the previous 12 months ending 9/30/2018.

When do you know that you've made the right investment?

When playing a sport or a game, it is usually obvious if you have done the right thing – you kick the ball and it goes into the net (good) or it misses the net (bad); you shoot the ball and it goes into the basket (good) or it misses (bad); you move a checker and you win the game or you lose; etc. But regarding investing for one's retirement, it is *not* typically so obvious if you have done the right thing or the wrong thing, until many years have passed. More to the point, in long-term investing it is not even easy to define "the right thing" or the "wrong thing". Why? First, each investor has her or his own unique situation, biases, and investing strategy. Second, investing for retirement is a long-term endeavor, at least for most of the time that we are working. This long-term reference frame is quite unusual for most of us, which makes it difficult to think about and to put into perspective. Intellectually, most of us realize that younger people have greater flexibility to withstand a "down" market swing because they have much more time to recover from a downturn's associated losses, and they also typically have less money in their retirement accounts. Said differently, older people who have accumulated more money/bigger retirement account balances, often think a lot about the reality that they have "more at risk". Often associated with this "at risk" feeling is that as investors age, they tend to invest more conservatively and they emphasize "security and stability" of their investments more than growth.

So, given the preceding, how should you invest? This is a valid question, but there is *not* one right answer. There are, however, various widely-accepted <u>cornerstones of long-term investing</u> that have merit. Let's consider two of these cornerstones: <u>Diversification</u> is a topic that has been emphasized a number of times in these quarterly reports. Diversification – from a 2013 article in US News:

> "Investment diversification is one of the basic building blocks of a solid portfolio. Diversification is the fancy name for the advice: Don't put all of your eggs in one basket. This is the basic principle behind *asset allocation*, a key element of portfolio diversification." A finance blogger in this same article defines investment diversification as "a portfolio strategy combining a variety of assets [e.g., different kinds of mutual funds] to reduce the overall risk of an investment portfolio."

The second topic (or cornerstone) is <u>dollar-cost averaging versus market timing</u>. We all know that it is extremely difficult, at best, to forecast the performance of the financial markets with any degree of accuracy. This applies to the market's direction (up or down), to the degree of the market's change, and to the timing of significant market movements. In the context of investing for retirement in a 401(k) Plan, dollar-cost averaging means establishing a purchase plan of what percentages of a Plan Participant's future purchases should buy various kinds of stock and bond funds. These future purchases include using the Participant's contributions, along with using any company matching and/or profit-sharing contributions. Over time this "target allocation purchase plan" buys more shares of various mutual funds when the markets drop, and it buys less shares when the markets rise (presumably a market rise makes many mutual funds' shares more expensive, and vice versa during market drops). This dollar-cost averaging strategy results in buying mutual funds at price levels which "average" somewhere between the lower prices (when the markets are down) and the higher prices (when the markets are up). The strategy's proponents argue that the strategy prevents long-term investors from trying to "time" the market, which they contend is a "loser's" strategy. Perhaps, like the lotto, it is thrilling and entertaining to pick the best time to buy mutual funds (or lotto tickets); but the big winners are very, very few. It may be fine to play the lottery with small amounts of money; but it would be very dangerous to bet your retirement savings on the lotto, as it would be dangerous to bet your retirement savings on your ability to "time" the financial markets. If you need proof of this, ask the many people who sold all of their stocks in 2008, after the market "crashed", and who have since missed the tremendous market growth which has occurred over the past 9+ years.

BROASTER COMPANY - 3rd Quarter, 2018 Plan Summary Report
Funds' Performances for Periods Ended September 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 third quarter 2018 total return was +5.2%; and for the 12-month period ending September 30, 2018, the total return was +14.5%. [For 12 months: the S&P 500 index returned +17.9%; the small-cap stock index returned +15.2% [2]; & the Dow Jones World (ex. U.S.) Index returned +2.0%]. The 3-month total return for the Barclays Aggregate Bond Index was 0.0%, taking the previous 12-month return to -1.2%. Lastly, (retail taxable) money market funds' average yield was +1.0 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, 2018: 1-Year Total Return *(Growth of $1,000)* [3]	**5-Year Average Return**	Fund Ranking [4] **5 Years**	Fund Ranking [4] 10 Years
Stock-oriented:				
Large Cap Funds:				
(Fidelity Contrafund) *[NASDAQ Code = FCNTX] [LG]* [5]	+24.7% *($1,247)*	**15.5%**	**33**	37
(Vang Total Stock Market Index/Adm) *[NASDAQ Code = VTSAX] [LB]*	+17.6% *($1,176)*	**13.4%**	**23**	15
(Vanguard Equity-Income/Adm) *[NASDAQ Code = VEIRX] [LV]*	+10.7% *($1,107)*	**11.6%**	**19**	15
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) *[NASDAQ Code = VIMAX] [MB]*	+13.4% *($1,134)*	**11.7%**	**18**	12
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) *[NASDAQ Code = LSSIX] [SG]*	+29.8% *($1,298)*	**12.5%**	**36**	28
(Vanguard Tax-Mged Small Cap/Adm) *[NASDAQ Code = VTMSX] [SB]*	+18.8% *($1,188)*	**13.2%**	**3**	8
International Fund:				
(T. Rowe Price Overseas Stock) *[NASDAQ Code = TROSX] [LB]*	+1.4% *($1,014)*	**5.0%**	**19**	16
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) *[NASDAQ Code = PRWCX] [LG]*	+10.6% *($1,106)*	**11.0%**	**1**	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) [6] *[NASDAQ Code = HABDX]*	-1.5% *($985)*	**2.4%**	**34**	22
(Templeton Global Bond Adv) [7] *[NASDAQ Code = TGBAX]*	-2.1% *($979)*	**1.8%**	**30**	10
(Vanguard Sht-Term Inv-Grade/Adm) *[NASDAQ Code = VFSUX]*	+0.3% *($1,003)*	**1.8%**	**18**	17
Money Market Fund:				
(TD Bank USA Institutional MMDA) *[NASDAQ Code = N/A]*	+0.2% *($1,002)*	**0.1%**	(-N/A-)	

(Endnotes on next page) →

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 September 30, 2017, one year later (on September 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 September 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.