

INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants

January 12, 2020

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

Enclosed is your Plan Summary Report for the quarter ending 12-31-2019, covering your mix of funds. This past 3-month period ending December 31 was strong for the overall U.S. stock market and it was up similarly for the aggregate international stock markets, and lastly it was up modestly for the overall U.S. bond market. According to Lipper Fund Services, the average U.S. stock mutual fund's fourth quarter 2019 total return was +8.3%, and the S&P 500 Index was up +9.1% for the fourth quarter. For the 12 months ending 12-31-2019 the S&P 500 Index was up +31.5%. According to Morningstar™ all of your funds have performed solidly-to-well for both 5 and 10 years relative to similar “peer group” funds, with the exception of the Templeton Global Bond Fund’s 5-year relative performance that lagged significantly. [Note: See footnote #7 in the attached “Plan Summary Report” for input regarding a one-time Morningstar change affecting this Fund’s rankings.] 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 12-31-2019 – 3 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 12-31-2019 (with the S&P 500 Index up +31.5%) three of your six domestic stock-oriented funds returned +30% or more.¹ For this time period the place to be invested (regarding equities) was in large U.S. companies (particularly growth-oriented, including many which make up the S&P 500 Index). Your top performing stock-oriented fund was the Vanguard Mid-Cap Index Admiral Fund at a +31.0% total return for the 12 months ending 12-31-2019, and your Harbor Bond Fund returned +8.4% 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 +5.9% & +13.1% for the past 5 years ending 12/31/2019. This compares to a strong +11.7% 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 – all of your domestic stock-oriented funds were above +9.2% 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 (1/6/2020 Wall Street Journal), for the past 12 months ending 12/31/2019 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +31.5% versus +21.6%. One of your stock-oriented funds is a foreign/international fund. For the 5-year period ending 12/31/2019 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +11.7% versus +5.8%.

² According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +7.0% for the previous 12 months ending 12/31/2019.

4th QUARTER, 2019 PLAN SUMMARY REPORT – BROASTER COMPANY

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

2019 -- Awesome! & Where to from here?

On the top of the following page → The average diversified U.S. stock mutual fund ... for the 12-month period ending December 31, 2019, the total return was +28.3%. [For 12 months: the S&P 500 index returned +31.5%; the small-cap stock index returned +25.5% ...]

On the top of the second page in last quarter's report → The average diversified U.S. stock mutual fund ... for the 12-month period ending September 30, 2019, the total return was -0.8%. [For 12 months: the S&P 500 index returned +4.3%; the small-cap stock index returned -8.9% ...]

2 questions: (1) Is the above correct? [Yes.] & (2) How could these 12-month returns possibly change so dramatically in a 3-month period? The big change was the result of “throwing out” a poor quarter’s return (for the last 3 months of 2018, the S&P 500 was DOWN -13.5%), while “adding in” this past quarter’s strong return (S&P 500 was UP +9.1%). [A result of this is that firms that sell investment products will be advertising much more and selling more aggressively, given the better 2019 returns that they can tout!]

If you are uncomfortable with the current high level of the stock market, and/or with geopolitical events; but you don’t want to “bail out”, you don’t need to assume that the next downturn will automatically be a bear market (or a big bear such as the 2007-2009 meltdown).¹ Perhaps rather than undoing your entire investment mix of funds, focus on ways you can stay invested while protecting yourself a bit more. [See below for one way – **Rebalancing**. The following restates previous writeups with updated data, through 12/31/2019.]

Rebalancing is one of the most-covered topics in these quarterly reports, and it is a broadly accepted and a well-tested investing strategy. It means that once you have decided on an initial percentage mix of different types of asset categories² that are best for you (called your “target allocation”) → *at least annually* you review the percentages that you have in each type of investment. Anytime an asset category’s allocation percentage has moved 4-5% or more away from its target allocation percentage mix, you adjust the category’s allocation back to its initial percentage. *Rebalancing is intended to keep an investor’s overall portfolio risk posture somewhat constant.* [Note: Periodically you should revisit your original “target allocation” and make adjustments based on your current financial situation and your comfort level with the stock market.] The 2019 stock markets were up dramatically, so because “rebalancing” is important to consider, an example follows:

Assume that 5 years ago, on December 31, 2014, you had \$10,000 in your retirement account: \$5,000 or 50% was in US stocks; \$1,500 or 15% was in Foreign stocks; \$2,500 or 25% was in US Short-Term bonds; and \$1,000 or 10% was in World bonds. Using index return statistics from Morningstar, recently on 12/31/2019, your \$10,000 would have grown to approximately \$14,531 in your retirement account (*without* further contributions): including \$8,693 or 59.8% in US stocks; \$1,976 or 13.6% in Foreign stocks; \$2,742 or 18.9% in US Short-Term bonds; and \$1,120 or 7.7% in World bonds.

In this example, what does this investor do to REBALANCE – and lower her/his plan balance’s “risk”? → Since she/he now has a **total account balance of \$14,531**: In the US stocks, which originally had 50% of her/his money in it – multiply this total **\$14,531 by 0.50** (50%, the US stocks target % in the previous paragraph) = **\$7,266**; & SELL (\$8,693 - \$7,266 =) **\$1,427 of US stocks**. This \$1,427 would be used to BUY the other 3 investment categories to get each percentage back to its original 12/31/14 target percentage.

¹ Long-term investors should keep the following in mind – although uncomfortable for all of us, a “down market” represents an opportunity to purchase funds at lower prices. This applies to future retirement plan purchases, both from your contributions and from any contributions made by your company to your account (e.g., company matching and/or profit sharing).

² The broad categories are stocks, bonds, and money market investments; and perhaps sub-categories of these -- e.g., world bonds.

BROASTER COMPANY - 4th Quarter, 2019 Plan Summary Report

Funds' Performances for Periods Ended December 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 fourth quarter 2019 total return was +8.3%; and for the 12-month period ending December 31, 2019, the total return was +28.3%. [For 12 months: the S&P 500 index returned +31.5%; the small-cap stock index returned +25.5% ²; & the Dow Jones World (ex. U.S.) Index returned +21.6%]. The 3-month total return for intermediate-term U.S. bonds was +0.8%, taking the previous 12-month return to +7.0%. 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 December 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) [NASDAQ Code = FCNTX] [LG] ⁵	+30.0% (\$1,300)	13.1%	39	40
(Vang Total Stock Market Index/Adm) [NASDAQ Code = VTSAX] [LB]	+30.8% (\$1,308)	11.2%	26	13
(Vanguard Equity-Income/Adm) [NASDAQ Code = VEIRX] [LV]	+25.4% (\$1,254)	10.2%	7	5
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) [NASDAQ Code = VIMAX] [MB]	+31.0% (\$1,310)	9.3%	17	7
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) [NASDAQ Code = LSSIX] [SG]	+26.5% (\$1,265)	11.5%	25	20
(Vanguard Tax-Mged Small Cap/Adm) [NASDAQ Code = VTMSX] [SB]	+23.3% (\$1,233)	9.5%	10	4
International Fund:				
(T. Rowe Price Overseas Stock) [NASDAQ Code = TROXX] [LB]	+22.9% (\$1,229)	5.9%	31	13
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) [NASDAQ Code = PRWCX] [LG]	+24.6% (\$1,246)	10.5%	1	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) ⁶ [NASDAQ Code = HABDX]	+8.4% (\$1,084)	3.3%	44	66
(Templeton Global Bond Adv) ⁷ [NASDAQ Code = TGBAX]	+0.9% (\$1,009)	1.5%	84	43
(Vanguard Sht-Term Inv-Grade/Adm) [NASDAQ Code = VFSUX]	+5.8% (\$1,058)	2.6%	15	19
Money Market Fund:				
(TD Bank USA Institutional MMDA) [NASDAQ Code = N/A]	+0.4% (\$1,004)	0.1%	(-N/A-)	

(Endnotes on next page) →

BROASTER COMPANY - 4th Quarter, 2019 Plan Summary Report

(continued)

Endnotes:

-
- 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 December 31, 2018, one year later (on December 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 December 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 core-plus bond fund – a new category as of several months ago. When interest rates rise, this fund will tend to drop in value more than short-term bond funds, in the short term. This fund, as with most of your funds, is intended for use as a long-term investment. Over time it is diversified across various bonds, including corporate and government bonds.
 - ⁷ Historically this fund was categorized as a “world bond” fund by Morningstar. Over time it has been diversified across various geographies worldwide. Recently it has been recategorized as a “nontraditional bond” fund. Michael Hasenstab (its long time, award winning portfolio manager) remains as the fund’s lead portfolio manager, and continues to invest in the fashion that he has invested in the past. But this recategorization and associated “historical re-rankings” have been significantly affected, negatively – e.g., as of June 30, this fund ranked in the 26th percentile & in the 14th percentile for the past 5 years and 10 years respectively (versus all “world bond” funds”). The manager’s contrarian style can result in “up” and “down” periods of performance.