

Compensation & Capital's Financial Planning Commentary as of June 30, 2014
"The Dangers of Seeking Simplicity By Following the Rules"

Janet Yellen is the Chairman of "The Fed." That's the Federal Reserve, the central bank of the U.S. government. She succeeded Ben Bernanke this past January. Besides being its most powerful member, the Fed Chairman acts as the official spokesperson for communications from the Fed. She openly discusses its current and forward-looking policies on U.S. inflation, unemployment, and interest rates. As such, Yellen arguably holds the most powerful appointed office in the world from the perspective of her ability to move the needle on daily global asset market values.

Empowering one individual with such pervasive influence over so much wealth would seem an obvious affront to all the foundations of the U.S. democratic system of checks and balances. So much so that it would seem clear that a tangible set of rules and acceptable actions defining what the Fed could do would be a given. At least, far preferable to its current level of independent authority.

As you would suspect this debate has increasingly strong legs. Its principles are at the heart of our polarized politics. To be sure, the Fed's self-described "unconventional tools" are legal; well within its broadly-written Federal Reserve Act powers. Yellen's opponents want Congress to decide upon (and write into law) a far more tangible set of "if-then" rules limiting the Fed's independence and its creative options in the face of a wide range of unknowable economic and banking events.

So Chairman Yellen's counterpoint is that it would be a "grave mistake" for the Fed to be forced into an "if-then" rules-based Fed policy. She cites her opinion that limiting the Fed's hand to a set of pre-conceived actions in the wake of the unprecedented 2007-2009 financial crisis hit would have hamstrung the Fed making the capital crisis and recession even worse. Her view is certainly open to criticism. That said, no one will ever know what might have been had the Fed's options been restricted. At the very least, our economic landscape would have looked far different than it does now!

Our *Commentary* introduction acts as a bit of education about a current debate whose outcome will certainly impact all of our personal financial lives. But much closer to home, we've used it as an illustration that, at least in the opinion of the Federal Reserve's very wise and educated Chairman, even all-powerful institutions like the Fed must always consider whether the conventional wisdom's rules are appropriate solutions to their problem at hand. As a household financial decision maker you face this conundrum too.

Accepting personal finance conventional wisdom can evoke a sense of security based in simplicity as we face complicated life challenges. If you're "most folks" then some simple rules may actually work! But if you happen to fall outside that norm, as many of us do, they can result in seriously unwelcome outcomes. You've likely heard some of these conventional wisdom personal finance rules:

- Contributing between 10% and 15% (including profit sharing contributions) of your gross pay to your retirement plan annually should accumulate sufficient retirement savings that, when combined with Social Security benefits, could replace about 80% of your pre-retirement pay.
- An appropriate strategic asset allocation is investing "100-minus-your age as your stocks %."
- Limiting your annual post-retirement withdrawals to 4% of your retirement account balance will make it likely that you will not deplete your retirement savings within your lifetime.
- Everyone has a wealth goal "retirement number" that if attained before retirement will allow us to live comfortably for the rest of our life. You can get that number from a financial advisor.

So who is "most folks" when it comes to each of these rules? And what sort of revisions are required to make them work for you? For these answers and more incisive explanations of the how's and why's of these gems of conventional personal finance wisdom, just turn the page!

Chicago Blower Corporation Profit Sharing & 401(k) Plans

Compensation & Capital's June 30, 2014

Retirement Saving and Investing "Action Points"

Personal Finance Conventional Wisdom – When the Rules Work and When They Don't:

"If-Then" rules can take much of the complexity out of personal finance decisions. But if applied blindly, without careful consideration of their "fine print" conditions and exceptions, they can yield very UN-desired results. So let's look under the sheets of the four rules we cited in our *Commentary*:

- When we speak 1-on-1 with 401(k) plan participants a commonly asked question is: What percentage of my gross pay should I be contributing? Jim Cramer, a very respected CNBC financial whiz, recently recorded a public service video aired on mass media in which he stated, *without qualification*, that 10% to 15% of pay is generally appropriate. Though we are not saying he's wrong, that contribution rate (always including profit sharing contributions) is appropriate *only if it's initiated in your early 20's and unfailingly applied throughout entire your career and only if your career-long income is in the lower to middle range*. For people who begin saving for retirement in their 30's, an appropriate rate range is 15% to 20%; for 40-somethings, it's 20% to 30%. Note that we are NOT suggesting that if you can't afford to contribute an age-appropriate rate, you shouldn't contribute at all. Anything saved and appropriately invested during your career will make retirement less economically stressful.
- We've devoted many of our past *Quarterly Memos* to the subject of appropriate "strategic asset allocations" (SAA) across stocks, bonds, and money markets. Second only to contribution rate, getting this one right is absolutely vital to your retirement planning success. Suffice to say that if the simple rule "invest 100-minus-your age as your stocks %" worked for everyone all the time, it would be worth its weight in retirement bliss! Age-based SAA rules, back-tested and agreed upon by many respected academicians, run more like this:

Age →	18-41	42-46	47-51	52-56	57-61	62-66	67-71	Retired
Stocks	90%	84%	76%	69%	61%	52%	38%	32%
Bonds	10%	16%	24%	31%	39%	44%	58%	56%
MMkts	0%	0%	0%	0%	0%	4%	8%	12%

So the simple rule is advisable *only*, according to our objective experts, when you're in your mid-to-late 60's. Otherwise, it puts too much into bonds; in fact, *way too much to bonds when you're younger*. Overly conservative, stocks-light investing by young savers can't beat inflation.

- Annual post-retirement withdrawals of 4% can indeed *help* your nest egg last through your lifetime. But it's no guaranty of that result. This 4% "silver bullet" withdrawal rate assumes that your investment SAA's annual returns are at least 4% PLUS inflation. Historic inflation's around 3%. So for the 4% rule to be successful, your annual investment returns must be around 7% for your entire retirement. Historically speaking, that requires an SAA of at least 55% to stocks which, by accepted standards (see the chart above) is far more aggressive than most experts would advise. So this rule works only for those that are willing to accept that added risk of investment loss during their retirement years.
- "Your Retirement Number" is the current marketing rage of mutual funds, banks and insurance companies. Their motivation is simple: Curiosity drives eyes to their websites. Since most people are woefully under-saved relative to their computed "number," the marketers hope these folks will become new customers. The algorithms and assumptions behind these computations are complex and deep. Coupled with relatively long timeframes inherent in career to death extrapolations, very small variations in assumed inflation or investment returns can have dramatic impacts on your "number." Best to follow appropriate contribution rates, invest with appropriate SAA's, while keeping living costs well below 85% of your gross pay.

Chicago Blower Corporation Profit Sharing & 401(k) Plans' Vanguard Funds Performance Specifics and Comparatives

(All for periods ended June 30, 2014)

(1) A fund with a 15th Ranking outperformed 85% of its peers.

Remember: Past performance is absolutely NOT a guarantee of future performance!

(2) "OER" or Operating Expense Ratio: Annual % of fund assets paid for fund operations and mgmt.

NAME OF VANGUARD SELECT VENUE FUND <i>Morningstar Category Name</i>	Securities Type(s)	Morningstar™ Category Percentile ⁽¹⁾ Ranking Past		OER ⁽²⁾	Total Return Performance for		Average Annualized Total Return for:			
		3 Years	10 Years		Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
PRIME MONEY MARKET - VMMXX	Money Market	15th	16th	0.16%	0.0%	0.0%	0.0%	0.1%	1.7%	2.2%
<i>Money Market Funds >></i>		<i>Category Average >></i>		0.17%	0.0%	0.0%	0.0%	0.1%	0.5%	1.9%
INTERMEDIATE TERM BOND INDEX SIGNAL - VIBSX	Bonds	20th	13th	0.10%	2.4%	5.2%	5.1%	6.8%	5.9%	6.4%
<i>Intermediate Bond Funds >></i>		<i>Category Average >></i>		0.88%	2.1%	5.1%	4.1%	6.0%	4.8%	5.4%
INFLATION PROTECTED SECURITIES ADM - VAIPX	Bonds	11th	21st	0.10%	3.8%	4.5%	3.5%	5.5%	5.1%	N/A
<i>Inflation-Protected Bond Funds >></i>		<i>Category Average >></i>		0.80%	3.3%	3.8%	2.6%	4.9%	4.7%	6.1%
WELLINGTON ADMIRAL - VWENX	Bonds & Stocks	6th	4th	0.18%	4.0%	17.3%	12.4%	14.0%	8.6%	7.5%
<i>Moderate Allocation Funds >></i>		<i>Category Average >></i>		0.95%	3.6%	16.0%	9.6%	12.6%	6.4%	5.2%
EQUITY INCOME ADMIRAL - VEIRX	Stocks	5th	8th	0.21%	5.2%	21.6%	17.4%	19.8%	9.2%	6.8%
<i>Large-Cap U.S. Value Stock Funds >></i>		<i>Category Average >></i>		1.15%	4.5%	22.2%	14.9%	17.3%	7.3%	5.7%
500 INDEX SIGNAL - VIFSX	Stocks	20th	31st	0.05%	5.2%	24.6%	16.5%	18.8%	7.8%	4.3%
<i>Large-Cap U.S. Blend Stock Funds >></i>		<i>Category Average >></i>		1.09%	4.6%	23.7%	14.9%	17.5%	7.3%	4.7%
SELECTED VALUE - VASVX	Stocks	6th	8th	0.43%	5.5%	29.8%	18.5%	22.0%	10.6%	10.5%
<i>Mid-Cap U.S. Value Stock Funds >></i>		<i>Category Average >></i>		1.26%	4.7%	25.4%	15.3%	20.5%	9.0%	9.0%
GROWTH INDEX SIGNAL - VIGSX	Stocks	12th	32nd	0.09%	6.2%	28.1%	16.8%	19.5%	8.4%	3.8%
<i>Large-Cap U.S. Growth Stock Funds >></i>		<i>Category Average >></i>		1.22%	4.2%	26.2%	14.4%	17.6%	7.8%	4.2%
MID-CAP GROWTH INVESTOR - VMGRX	Stocks	30th	26th	0.51%	2.8%	22.6%	13.8%	20.0%	10.1%	8.7%
<i>Mid-Cap U.S. Growth Stock Funds >></i>		<i>Category Average >></i>		1.34%	2.7%	24.0%	12.6%	19.0%	8.8%	7.4%
SMALL-CAP INDEX SIGNAL - VSISX	Stocks	24th	17th	0.09%	3.8%	26.5%	16.2%	22.3%	10.2%	9.1%
<i>Small-Cap U.S. Blend Stock Funds >></i>		<i>Category Average >></i>		1.28%	2.3%	23.8%	14.3%	19.9%	8.7%	9.4%
INTERNATIONAL GROWTH ADMIRAL - VWILX	Foreign Stocks	40th	21st	0.35%	3.1%	25.0%	7.7%	13.5%	8.7%	6.0%
<i>Foreign Large Growth Stock Funds >></i>		<i>Category Average >></i>		1.43%	3.6%	19.5%	6.9%	12.1%	7.2%	5.3%
EMERGING MARKETS INDEX SIGNAL - VERSX	Foreign Stocks	60th	36th	0.15%	7.4%	14.0%	-0.9%	8.9%	11.5%	9.0%
<i>Diversified Emerging Markets Stock Funds >></i>		<i>Category Average >></i>		1.59%	6.6%	14.2%	0.1%	9.1%	11.2%	9.1%
ENERGY ADMIRAL - VGELX	Energy Stocks	43rd	12th	0.32%	11.4%	30.7%	7.4%	13.3%	13.2%	13.7%
<i>Energy Sector Stock Funds >></i>		<i>Category Average >></i>		1.54%	12.2%	32.3%	6.3%	13.3%	12.0%	12.0%

Chicago Blower Corporation Profit Sharing & 401(k) Plans' Vanguard Funds Performance Specifics and Comparatives

(All for periods ended June 30, 2014)

(1) A fund with a 6th Ranking outperformed 94% of its peers.

Remember: Past performance is absolutely NOT a guarantee of future performance!

(2) "OER" or Operating Expense Ratio: Annual % of fund assets paid for fund operations and mgmt.

VANGUARD INDEXED AUTO-BALANCED FUND <i>Morningstar Category Name</i>	Securities Type(s)	Morningstar™ Category Percentile ⁽¹⁾ Ranking Past		OER ⁽²⁾	Total Return Performance for		Average Annualized Total Return for:			
		1 Year	5 Years		Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
TARGET RETIREMENT INCOME - VTINX	Target Date 2000-2010	55th	61st	0.16%	2.7%	9.7%	6.6%	8.6%	5.8%	N/A
<i>Retirement Income Funds >></i>		<i>Category Average >></i>		0.51%	2.7%	10.3%	6.2%	9.3%	4.7%	4.0%
TARGET RETIREMENT 2010 - VTENX	Target Date 2000-2010	61st	45th	0.16%	3.0%	11.8%	7.6%	10.5%	N/A	N/A
<i>Target Date 2000-2010 Funds >></i>		<i>Category Average >></i>		0.54%	3.0%	11.4%	6.5%	10.0%	5.1%	3.8%
TARGET RETIREMENT 2015 - VTXVX	Target Date 2011-2015	18th	24th	0.16%	3.5%	14.5%	8.8%	11.9%	6.5%	N/A
<i>Target Date 2011-2015 Funds >></i>		<i>Category Average >></i>		0.47%	3.1%	12.3%	7.0%	10.6%	5.3%	3.5%
TARGET RETIREMENT 2020 - VTENX	Target Date 2016-2020	15th	22nd	0.16%	3.7%	16.4%	9.7%	12.9%	N/A	N/A
<i>Target Date 2016-2020 Funds >></i>		<i>Category Average >></i>		0.55%	3.4%	13.8%	7.9%	11.5%	5.6%	3.6%
TARGET RETIREMENT 2025 - VTXVX	Target Date 2021-2025	27th	29th	0.17%	4.0%	18.0%	10.4%	13.8%	6.8%	N/A
<i>Target Date 2021-2025 Funds >></i>		<i>Category Average >></i>		0.47%	3.6%	16.3%	9.0%	13.0%	6.2%	N/A
TARGET RETIREMENT 2030 - VTENX	Target Date 2026-2030	17th	19th	0.17%	4.2%	19.5%	11.1%	14.6%	N/A	N/A
<i>Target Date 2026-2030 Funds >></i>		<i>Category Average >></i>		0.55%	3.8%	17.3%	9.4%	13.3%	6.1%	3.7%
TARGET RETIREMENT 2035 - VTXVX	Target Date 2031-2035	16th	17th	0.17%	4.5%	21.1%	11.8%	15.4%	7.3%	N/A
<i>Target Date 2031-2035 Funds >></i>		<i>Category Average >></i>		0.48%	4.0%	19.2%	10.3%	14.5%	6.3%	N/A
TARGET RETIREMENT 2040 - VTENX	Target Date 2036-2040	11th	13th	0.18%	4.6%	22.2%	12.3%	15.8%	N/A	N/A
<i>Target Date 2036-2040 Funds >></i>		<i>Category Average >></i>		0.54%	4.2%	19.5%	10.3%	14.4%	6.4%	3.4%
TARGET RETIREMENT 2045 - VTXVX	Target Date 2041-2045	15th	13th	0.18%	4.6%	22.1%	12.3%	15.8%	7.6%	N/A
<i>Target Date 2041-2045 Funds >></i>		<i>Category Average >></i>		0.47%	4.2%	20.5%	11.0%	15.0%	7.6%	N/A
TARGET RETIREMENT 2050 - VTENX	Target Date 2046-2050	14th	13th	0.18%	4.6%	22.1%	12.3%	15.8%	N/A	N/A
<i>Target Date 2046-2050 Funds >></i>		<i>Category Average >></i>		0.53%	4.3%	20.3%	10.7%	14.7%	6.8%	N/A
TARGET RETIREMENT 2055 - VTXVX	Target Date 2051+	18th	n/a	0.18%	4.6%	22.2%	12.4%	N/A	N/A	N/A
<i>Target Date 2051+ Funds >></i>		<i>Category Average >></i>		0.47%	4.2%	21.1%	11.2%	14.9%	N/A	N/A
LIFE STRATEGY CONSERVATIVE - VSCGX	Conservative Allocation	33rd	46th	0.15%	3.1%	12.1%	7.1%	9.7%	5.8%	5.1%
<i>Conservative Allocation Funds >></i>		<i>Category Average >></i>		0.87%	3.0%	10.8%	6.5%	9.5%	5.4%	5.0%
LIFE STRATEGY GROWTH - VASGX	Aggressive Allocation	31st	37th	0.17%	4.3%	20.1%	11.0%	14.6%	7.0%	5.0%
<i>Aggressive Allocation Funds >></i>		<i>Category Average >></i>		0.90%	4.0%	19.3%	10.5%	14.3%	6.7%	5.2%