Chicago Blower Corporation Profit Sharing & 401(k) Plans

Compensation & Capital's Financial Planning Commentary as of June 30, 2017

"Searching for Stability in Your Retirement Planning? Be Careful Where You Look."

Fearful of another "surprise" market crash gutting your hard-earned retirement investments? Tired of watching your Plan account flutter with the antics of Kabuki-style politicians? Yearning for a way to bring that perfect balance of stability and growth to your retirement portfolio with one easy click? Sick of the uncertainties that come with trying to determine how much lifetime income your account will provide for your retirement years? Curious about TV ads that tout guaranteed protection and lifetime income with up to 33% more income in retirement?

As in life itself, there's no doubt that stability in our financial lives has its allure - and rightfully so. Readers of our *Quarterly Commentary* over its 18+ year history have recognized that the promotion of personal financial stability is a core theme in our message. Integral to that message has always been our respect for the reality that there's no one-size-fits-all, silver bullet solution to that quest for stability, even in as narrow an application as its investing component. So this time around and counter to our usual tactic of guiding you along the constructive side of the pathway, we turn 180º by highlighting a sample of solutions that appear attractive but can harbor not-so-rosy consequences.

> *"I guess I should warn you, if I turn out to be particularly clear, you've probably misunderstood what I've said."*
> **Alan Greenspan**

Our embedded tongue-in-cheek quote from the former Chairman of the Fed guides our opening to this segment. Given that desperate humans are wired to grasp at the visually simplest means back to peace, we all need to be genuinely aware that the less respectable actors in the financial services industry know how to thrive on that facet of our human nature. The fact is: there are no simple, magical solutions that work for everyone. So be wary of these oft-purported silver bullets:

Annuities? Annuities are a type of investment account typically used for retirement savings or to generate regular income payments in retirement. Annuities are insurance contracts. The issuing insurance company provides some sort of guarantee on your investment. At this simple level, this sounds like a perfect solution, right? In proper doses of the proper kind of annuity, it can definitely lend helpful diversification to your retirement income. But beware that these investment contracts can be notoriously complicated and therefore ripe for abuse. Come-on's like "8% annual income" blur the word "income" with our understanding of investment "return." (Their reference to "income" includes the annuity's return of a portion of your original investment.) Exorbitant fees are also a frequent part of an annuity product's fine print. So do yourself a big favor: Before even *considering* an annuity, do a deep dive into ad-lite info sources like http://money.cnn.com/retirement/guide/annuities_basics.moneymag/index.htm.

Lighten up on stocks? As we have discussed so often in our *Commentary*, stocks are indeed one of the most volatile investment classes. But in general and over reasonably long time periods, that volatility (aka "risk") begets higher returns than less volatile investment classes (like bonds, CD's, real estate, absolute return strategies, etc.) These less risky investments are included in properly constructed portfolios specifically to generate more consistent (that is, stable but lower) returns primarily from interest income. So Yes: If your goal is portfolio stability and reducing probability of crash-type losses, reducing stock exposure will likely work. Trouble is, portfolios of these less risky investments (once again, over reasonably long time periods) have historically averaged only around 2½% per year over inflation. Under similar conditions and timeframes, diversified portfolios of stocks averaged about 6½% per year over inflation. Put in stark terms: For your retirement account to provide you with a lifetime of withdrawals that have stable and equal purchasing power from your first year to your last, without your prior knowledge of when that last year will be, it will have to both keep pace with inflation AND produce investment returns pretty close to your withdrawal rate. Incrementally increasing stability over risk anywhere within about 6 years of retirement is a good idea. But earlier, it's best to emotionally absorb the volatility of stocks in favor of a healthy dose of risk over stability.

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Compensation & Capital's June 30, 2017

Retirement Saving and Investing "Action Points"

Quantifying the Costs of Predictability:

The message of this quarter's (opposite page) *Commentary* leads almost seamlessly into our *Action Points* segment. *[☺ What a coincidence, eh?]* Our *Commentary* focused on the insidious risks inherent in superficially logical "silver bullets" that are often marketed to counter the emotional roller coaster inherent in stock market volatility. This time around, our *Action Points* section attempts to put a more precise floor under what sort of fluctuations are "normal" for various portfolio mixes of stocks and bonds. Over the years we've written frequently of the benefits of realistic expectations to investing success. That's because a healthy understanding of "what's normal" is always constructive in managing our emotional responses to any life event.

With the very long-term (45 years back) average annualized returns for bonds and stocks at about 5½% and 9½% respectively, when viewed with blinders, these metrics could lead retirement investors to believe that there's no reason to invest in anything but stocks. That is, until we remember that stock returns are far more variable year-over-year than bond returns. That variability, *aka* risk, volatility, or standard deviation, is the great equalizer when it comes to investing success or failure.

Getting "Mathy" for a moment, here's a chart of past 45 years' stats for various stock/bond mixes.

Mix*: Stock% vs. Bond%* →	***0 / 100***	***20 / 80***	***40 / 60***	***60 / 40***	***80 / 20***	***100 / 0***
Ave Return per Year - "Annualized"	5.2%	6.4%	7.6%	8.4%	8.9%	9.8%
Return Variability - In ⅔ of past years	± 4.1%	± 4.6%	± 6.5%	± 9.1%	± 11.9%	± 14.8%
Worst 5 Years' Return (Cummulative)	+ 5.1%	+ 9.9%	+ 2.0%	- 6.3%	- 15.0%	- 23.0%
Worst Loss (Cummulative)	- 5.5%	- 11.9%	- 25.0%	- 38.1%	- 49.2%	- 58.6%
Recovery Time from Worst Loss	‹ 1yr	‹ 2yrs	‹ 2yrs	‹ 3yrs	‹ 4yrs	‹ 5yrs

There's clearly a lot of instructive metrics in this table. Here are the ones we feel deserve your focus specific to our discussion of variability of retirement account values and predictability of returns:

→ The "Recovery Time from Worst Loss" row supports the wisdom of our *Commentary's* second-to-last sentence: "Incrementally increasing stability over risk anywhere within about 6 years of retirement is a good idea." In combination with the "Worst Loss" row, these metrics clarify the sorts of losses for which we must be prepared, both emotionally and financially, across the accumulation, transition (that is near-term to and from retirement) and later withdrawal stages of our retirement investing. They also speak volumes to the oft-provided counsel that savers early in their careers should do everything they can to stay emotionally committed to growth over stability, and especially in the face of stock market sell-offs.

→ The "Worst 5 Years' Return" illustrates that stock markets can, and do, languish in losses over what can seem to be excruciatingly long periods. But historically speaking, the longer that stocks are out of balance with their historical average annual returns, the more dramatic the "snap-back" recovery. So once again, if accepting risk over stability is appropriate to your time horizon or your withdrawal requirements, consider these worst case metrics as emotional sustenance during weak stock markets.

→ "Average Return per Year" and "Variability" (first and second rows) of the table, taken in combination for your portfolio's mix strategy, can provide you with an excellent barometer for what's "normal". For example, many retirement plan participants in their early 60's are invested 60% stocks / 40% bonds. The second row indicates that historically speaking, for portfolios mixed as such, two-thirds of years should normally have returns of 8.4% ± 9.1% (that is, anywhere from about a 1% loss to about a 17% gain.)

Of course, investing history should never be viewed as conclusively predictive. But absent a 100% reliable crystal ball, realistic expectations are never a bad thing when managing your investments.

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

(All for periods ended June 30, 2017)

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

(1) A fund with a 8th Ranking outperformed 92% of its peers.

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

NAME OF VANGUARD SELECT VENUE FUND	Securities	Morningstar™ Category Percentile (1) Ranking Past			Total Return Performance for		Average Annualized Total Return for:			
Morningstar Category Name	Type(s)	5 Years	15 Years	OER(2)	Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
TREASURY MONEY MARKET - VUSXX	**Money Market**	**8th**	**18th**	**0.09%**	**0.2%**	**0.4%**	**0.2%**	**0.1%**	**0.5%**	**1.2%**
Money Market Funds >>		*Category Average >>*		*0.33%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*	*1.1%*
INTERMEDIATE TERM BOND INDEX ADM - VBILX	**Bonds**	**38th**	**10th**	**0.07%**	**1.6%**	**-1.0%**	**3.0%**	**2.6%**	**5.6%**	**5.4%**
Intermediate Bond Funds >>		*Category Average >>*		*0.78%*	*1.5%*	*0.9%*	*2.2%*	*2.5%*	*4.3%*	*4.3%*
INFLATION PROTECTED SECURITIES ADM - VAIPX	**Bonds**	**20th**	**25th**	**0.10%**	**-0.5%**	**-0.8%**	**0.6%**	**0.2%**	**4.1%**	**4.7%**
Inflation-Protected Bond Funds >>		*Category Average >>*		*0.72%*	*-0.5%*	*0.1%*	*0.0%*	*-0.2%*	*3.4%*	*4.1%*
WELLINGTON ADMIRAL - VWENX	**Bonds & Stocks**	**6th**	**3rd**	**0.16%**	**2.7%**	**12.3%**	**6.8%**	**10.5%**	**7.0%**	**8.2%**
Allocation – 50% to 70% Equity Funds >>		*Category Average >>*		*1.17%*	*2.4%*	*10.7%*	*4.0%*	*8.0%*	*4.9%*	*6.4%*
EQUITY INCOME ADMIRAL - VEIRX	**Stocks**	**24th**	**8th**	**0.17%**	**2.0%**	**13.7%**	**8.5%**	**13.6%**	**7.5%**	**8.8%**
Large-Cap U.S. Value Stock Funds >>		*Category Average >>*		*1.06%*	*1.8%*	*16.5%*	*6.4%*	*12.6%*	*5.2%*	*7.4%*
500 INDEX ADMIRAL - VFIAX	**Stocks**	**19th**	**22nd**	**0.04%**	**3.1%**	**17.9%**	**9.6%**	**14.6%**	**7.2%**	**8.3%**
Large-Cap U.S. Blend Stock Funds >>		*Category Average >>*		*1.00%*	*2.9%*	*17.2%*	*7.6%*	*13.4%*	*6.2%*	*7.7%*
SELECTED VALUE - VASVX	**Stocks**	**23rd**	**22nd**	**0.39%**	**2.2%**	**24.3%**	**6.1%**	**14.8%**	**7.4%**	**9.9%**
Mid-Cap U.S. Value Stock Funds >>		*Category Average >>*		*1.16%*	*1.0%*	*17.3%*	*5.7%*	*13.4%*	*6.2%*	*9.0%*
GROWTH INDEX ADMIRAL – VIGAX	**Stocks**	**32nd**	**27th**	**0.06%**	**4.7%**	**20.1%**	**10.1%**	**14.9%**	**8.8%**	**8.9%**
Large-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*1.14%*	*5.0%*	*20.0%*	*8.8%*	*13.9%*	*7.5%*	*8.2%*
MID-CAP GROWTH INVESTOR - VMGRX	**Stocks**	**69th**	**43rd**	**0.36%**	**4.1%**	**15.5%**	**5.7%**	**11.6%**	**7.2%**	**9.3%**
Mid-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*1.24%*	*4.7%*	*18.6%*	*6.9%*	*12.7%*	*6.8%*	*9.0%*
SMALL-CAP INDEX ADMIRAL - VSMAX	**Stocks**	**28th**	**15th**	**0.06%**	**2.0%**	**19.1%**	**6.8%**	**14.1%**	**7.8%**	**10.1%**
Small-Cap U.S. Blend Stock Funds >>		*Category Average >>*		*1.21%*	*1.5%*	*21.0%*	*5.7%*	*12.8%*	*6.1%*	*8.8%*
INTERNATIONAL GROWTH ADMIRAL - VWILX	**Foreign Stocks**	**10th**	**9th**	**0.33%**	**10.3%**	**28.4%**	**5.1%**	**10.9%**	**3.6%**	**8.1%**
Foreign Large Growth Stock Funds >>		*Category Average >>*		*1.24%*	*8.0%*	*17.8%*	*2.6%*	*8.7%*	*1.9%*	*6.6%*
EMERGING MARKETS INDEX ADMIRAL - VEMAX	**Foreign Stocks**	**62nd**	**40th**	**0.14%**	**3.5%**	**18.9%**	**0.6%**	**3.4%**	**1.6%**	**10.2%**
Diversified Emerging Markets Stock Funds >>		*Category Average >>*		*1.46%*	*5.9%*	*20.5%*	*0.5%*	*4.1%*	*1.5%*	*10.0%*
ENERGY ADMIRAL - VGELX	**Energy Stocks**	**11th**	**1st**	**0.33%**	**-6.2%**	**-1.0%**	**-10.9%**	**0.6%**	**0.0%**	**8.7%**
Energy Sector Stock Funds >>		*Category Average >>*		*1.46%*	*-11.9%*	*-6.0%*	*-18.3%*	*-3.5%*	*-3.0%*	*5.7%*

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

(All for periods ended June 30, 2017)

(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.

VANGUARD INDEXED AUTO-BALANCED FUND / *Morningstar Category Name*	Securities Type(s)	Morningstar™ Category Percentile (1) Ranking Past: 3 Years	5 Years	OER(2)	Total Return Performance for: Past Qtr	12 Mos	Average Annualized Total Return for: 3 Yrs	5 Yrs	10 Yrs	15 Yrs
TARGET RETIREMENT INCOME - VTINX	**Target Date Retire Income**	**15th**	**30th**	**0.13%**	**1.8%**	**5.2%**	**3.5%**	**4.9%**	**5.0%**	**N/A**
Retirement Income Funds >>	*Category Average >>*			*0.81%*	*1.8%*	*5.6%*	*2.7%*	*4.4%*	*3.7%*	*N/A*
TARGET RETIREMENT 2015 - VTXVX	**Target Date 2015**	**21st**	**30th**	**0.14%**	**2.3%**	**8.1%**	**4.2%**	**7.3%**	**4.9%**	**N/A**
Target Date 2015 Funds >>	*Category Average >>*			*0.77%*	*2.2%*	*8.2%*	*3.4%*	*6.6%*	*4.1%*	*N/A*
TARGET RETIREMENT 2020 - VTWNX	**Target Date 2020**	**4th**	**9th**	**0.14%**	**2.8%**	**10.3%**	**4.9%**	**8.4%**	**5.1%**	**N/A**
Target Date 2020 Funds >>	*Category Average >>*			*0.84%*	*2.3%*	*8.8%*	*3.5%*	*6.6%*	*3.8%*	*N/A*
TARGET RETIREMENT 2025 - VTTVX	**Target Date 2025**	**6th**	**16th**	**0.15%**	**3.1%**	**12.0%**	**5.2%**	**9.2%**	**5.1%**	**N/A**
Target Date 2025 Funds >>	*Category Average >>*			*0.82%*	*2.8%*	*11.0%*	*4.0%*	*7.9%*	*4.2%*	*N/A*
TARGET RETIREMENT 2030 - VTHRX	**Target Date 2030**	**12th**	**14th**	**0.15%**	**3.3%**	**13.4%**	**5.4%**	**9.9%**	**5.1%**	**N/A**
Target Date 2030 Funds >>	*Category Average >>*			*0.87%*	*3.0%*	*12.4%*	*4.4%*	*8.4%*	*4.1%*	*N/A*
TARGET RETIREMENT 2035 - VTTHX	**Target Date 2035**	**17th**	**15th**	**0.15%**	**3.6%**	**15.0%**	**5.7%**	**10.6%**	**5.3%**	**N/A**
Target Date 2035 Funds >>	*Category Average >>*			*0.84%*	*3.5%*	*14.6%*	*4.8%*	*9.4%*	*4.5%*	*N/A*
TARGET RETIREMENT 2040 - VFORX	**Target Date 2040**	**17th**	**12th**	**0.16%**	**3.8%**	**16.5%**	**5.9%**	**11.1%**	**5.5%**	**N/A**
Target Date 2040 Funds >>	*Category Average >>*			*0.89%*	*3.4%*	*15.1%*	*4.9%*	*9.5%*	*4.3%*	*N/A*
TARGET RETIREMENT 2045 - VTIVX	**Target Date 2045**	**18th**	**13th**	**0.16%**	**3.8%**	**17.0%**	**6.0%**	**11.2%**	**5.5%**	**N/A**
Target Date 2045 Funds >>	*Category Average >>*			*0.85%*	*3.8%*	*16.3%*	*5.1%*	*10.1%*	*4.6%*	*N/A*
TARGET RETIREMENT 2050 - VFIFX	**Target Date 2050**	**18th**	**14th**	**0.16%**	**3.8%**	**17.0%**	**6.0%**	**11.2%**	**5.5%**	**N/A**
Target Date 2050 Funds >>	*Category Average >>*			*0.89%*	*3.6%*	*15.9%*	*5.1%*	*9.9%*	*4.3%*	*N/A*
TARGET RETIREMENT 2055 - VFFVX	**Target Date 2055**	**23rd**	**25th**	**0.16%**	**3.8%**	**17.0%**	**5.9%**	**11.2%**	**N/A**	**N/A**
Target Date 2055 Funds >>	*Category Average >>*			*0.85%*	*3.8%*	*16.6%*	*5.3%*	*10.5%*	*N/A*	*N/A*
TARGET RETIREMENT 2060 - VTTSX	**Target Date 2060+**	**36th**	**1st**	**0.16%**	**3.9%**	**17.0%**	**5.9%**	**11.2%**	**N/A**	**N/A**
Target Date 2060+ Funds >>	*Category Average >>*			*0.84%*	*3.8%*	*16.9%*	*5.4%*	*11.2%*	*N/A*	*N/A*
LIFE STRATEGY CONSERVATIVE - VSCGX	**Conservative Allocation**	**11th**	**31st**	**0.13%**	**2.3%**	**7.0%**	**4.3%**	**6.3%**	**4.5%**	**5.7%**
Allocation – 30% to 50% Equity Funds >>	*Category Average >>*			*1.2%*	*1.8%*	*7.2%*	*2.9%*	*5.7%*	*4.3%*	*5.5%*
LIFE STRATEGY GROWTH - VASGX	**Aggressive Allocation**	**12th**	**19th**	**0.15%**	**3.5%**	**14.9%**	**5.7%**	**10.3%**	**4.9%**	**7.2%**
Allocation – 70% to 85% Equity Funds >>	*Category Average >>*			*1.30%*	*2.8%*	*13.4%*	*4.2%*	*9.3%*	*4.4%*	*6.6%*