

## Chicago Blower Corporation Profit Sharing & 401(k) Plans

### Compensation & Capital's Financial Planning Commentary as of December 31, 2016

#### "It's All About the Relatives"

Don't worry: This edition of our *Quarterly Commentary* entitled "It's All About the Relatives" won't even get close to analyses family dynamics! Suffice to say, there's plenty of psychology embedded in saving and investing dynamics to fill a lifetime of *Quarterly Commentary*.

No, *this* play on words instead focuses upon many investor's so often erroneously applied human nature to employ apples-to-oranges comparisons in evaluating their own retirement investment portfolio's performance just after each New Year. In short, our perceptions of investing success versus failure must always hinge upon "relative to what". But what to compare to?

First off: Are widely known benchmarks such as the Dow Jones 30 Industrial Average, S&P 500 Index, NASDAQ Index and Yield on the 10-year U.S. Treasury Bond appropriate comparisons to evaluate your account's performance? Generally speaking: No.

That's primarily because each of these benchmarks relates only to a *specific small segment* of financial securities (respectively for the ones we noted above, 30 large U.S. corporations, the 500 largest U.S. corporations, the 100 largest U.S. tech companies, and a very specific subset of bonds issued by the U.S. government.) In contrast to these indices' very focused sets of securities, we have long advised that retirement plan accounts are best constructed as well-diversified portfolios containing an appropriate portion of many different segments of securities packaged in mutual fund(s) mixed appropriate to your personal "appetite" for market risk. The indices don't have that diversification. So in most years the indices will perform either much better or much worse than your diversified plan account. There are many more good reasons to avoid using these widely-known indices to judge how your plan account fared. In short, they're just not comparable to well-constructed, diversified retirement plan accounts.

As an aside, individual fund-by-fund evaluations are quite easy to do. CBC Plan funds' comparison metrics are illustrated each quarter in the tables after our narratives. By contrast, evaluating a portfolio containing multiple funds is far more complex.

But even if you have the investing and mathematics knowledge to construct and apply a personal benchmark "index" that reflects your plan account's multi-fund portfolio, the next complexity to a valid evaluation is: What trailing periods shall I focus upon? Past 1 year? 5 years? 10 years? Fact is: They all matter. But they will often each point to different conclusion!

Now we fully realize that you probably began reading this *Commentary* expecting a concise, easily applied answer to its preface question. But as we increasingly see in all facets of our complex world, short answers can rarely be applied to broad questions. And that's ever so true here too. In short, we've examined the two most important facets for a valid evaluation. We've concluded that each has sufficient complications and tangential issues to render it fallible or at best, inconclusive.

So instead, we recommend that you rely on our expertise and 100% objective guidance to insure that your Plan's investment options are working for you. We earn and facilitate that reliance by:

- Urging you to set and maintain an appropriate mix of the Plan's mutual funds of stocks, bonds and money markets according to your goals, time horizon, and emotional risk tolerance.
- Continually evaluating your Plan's funds against their peers to insure you have top-quality options.
- Providing you guideline mixes of those funds resulting in risk profiles for varying time horizons.
- Comprehensively reporting each Plan fund's comparative performance metrics every quarter.

The operative embodiments of these efforts are comprehensively described and available on the Plan's website at [www.planspecs.com/cbc](http://www.planspecs.com/cbc) under the *Plan Investing* tab.

## Chicago Blower Corporation Profit Sharing & 401(k) Plans

**Compensation & Capital's December 31, 2016**

**Retirement Saving and Investing "Action Points"**

### **Maintaining Diversification in the Face of Significant Disparities in Stock Market Performance:**

Once again, and for the fourth straight year, stock markets in the U.S. once again crushed their broader non-U.S. counterparts in 2016. For calendar 2016, the U.S. stock market as measured by the Vanguard Total Stock Market Fund was up 12.7% while comparable non-U.S. stocks as measured by the Vanguard Total International Fund were up only 4.7%. For the past 5 years through 12/31/2016, these two funds posted annualized returns of 14.5% versus 5.4% respectively. In relative terms these two subsets of the global stock markets are fundamentally very similar sets of investments. Their only real differences are their nations of incorporation and therefore, the currencies in which they do business. But it's their similarity that makes this performance disparity even more striking. That disparity makes it tempting to look at these numbers and conclude that it's best to hold only U.S. stocks and forget about the rest of the globe. And taking that feeling one step further, to seriously question whether that paradigm of investing success – diversification – remains valid.

Now there are all sorts of intelligent-sounding reasons to avoid foreign stocks at the moment: Stagnant overseas economic growth, poor demographics, European Union messiness, political instability, increasing pressures toward nationalism, immigration pressures on Europe, presumed future persistence of U.S. economic dominance, etc. The thing to remember while considering such fundamental drivers of optimism for U.S. stocks is that you are clearly not the only investor that's tuned into these trends. In other words, chances are that these developments are already baked into U.S. stocks' recent super-performance. Sure there's a chance that U.S. stocks could continue their strong performance for a number of years to come. On the other hand, it could end tomorrow.

Continued multi-year U.S. out-performance would deny the cyclicity of markets. That is, markets' tendency to become unbalanced and as a result, revert back to their balanced state. Similar periods of cyclicity have existed across these very same stock market subsets in the relatively recent past:

<b>Specific Subset of the Global Stock Markets:</b>	<b>Annualized Returns for Trailing Periods Ending:</b>				
	<b><u>5yrs Dec2001</u></b>	<b><u>5yrs Jun2006</u></b>	<b><u>5yrs Jun2010</u></b>	<b><u>5yrs Dec2016</u></b>	<b><u>15yrs Dec 2016</u></b>
U.S. Stocks	9.7%	3.8%	-0.3%	14.5%	7.2%
Non-U.S. Stocks	0.1%	10.9%	2.8%	5.4%	5.7%
Emerging Markets' Stocks	-5.0%	20.4%	11.8%	1.3%	9.2%

As you can see, performance spreads for the 5 years ending December, 2001 (in Col2) were similar to the ones we see today (in Col5). Those spreads had essentially reversed by June, 2006 (in Col3) and remained so through 2010 (Col4) returning to U.S. dominance starting in 2013. The 20 years of history shown here comprises three unique cycles. For retirement investors, an investing lifetime can easily encompass ten or more market cycles! That's why we added the last column showing each subsets' annualized 15 year returns through 12/31/2016. As you can see, despite the very significant 5-year cyclical spreads, the multi-cycle 15 years' returns' spreads are far less pronounced.

Suffice to say that regardless of how "Great" you believe America is going to become, the U.S. definitely doesn't have a monopoly on stock market returns, profit growth, dividend payments, innovation or great ideas. Those facets are what drive stock prices, regardless of where a corporation calls home. So it's important to remember that, IF we are indeed simply experiencing another cycle, it will rebalance at some point. And with the performance disparity as significant as it's been lately, that inflection point may well be swift and dramatic.

Predicting the investing future is a fool's game. That road is littered with very intelligent people whose egos got way ahead of reality. Diversification may be boring. It may be frustrating. But there's no arguing that it's worked over many, many cycles to match portfolio volatility to investors' needs.

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

(All for periods ended December 31, 2016)

(1) A fund with a 8<sup>th</sup> Ranking outperformed 92% 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 <sup>(1)</sup> Ranking Past		OER <sup>(2)</sup>	Total Return Performance for		Average Annualized Total Return for:			
		5 Years	15 Years		Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
TREASURY MONEY MARKET - VUSXX	Money Market	8th	19th	0.16%	0.1%	0.3%	0.1%	0.1%	0.8%	1.3%
<i>Taxable Money Market Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.33%	0.1%	0.2%	0.0%	0.0%	0.7%	1.1%
INTERMEDIATE TERM BOND INDEX ADM - VBILX	Bonds	38th	9th	0.09%	-4.2%	2.8%	3.7%	2.9%	5.4%	5.4%
<i>Intermediate Bond Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.81%	-2.5%	3.2%	2.7%	2.6%	4.1%	4.4%
INFLATION PROTECTED SECURITIES ADM - VAIPX	Bonds	20th	25th	0.10%	-2.7%	4.6%	2.3%	0.8%	4.2%	5.2%
<i>Inflation-Protected Bond Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.76%	-1.7%	4.6%	1.4%	0.4%	3.4%	4.4%
WELLINGTON ADMIRAL - VWENX	Bonds & Stocks	6th	3rd	0.18%	3.2%	11.1%	6.9%	10.5%	7.0%	7.7%
<i>Allocation – 50% to 70% Equity Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.20%	1.0%	7.3%	3.9%	8.0%	4.8%	5.5%
EQUITY INCOME ADMIRAL - VEIRX	Stocks	34th	8th	0.17%	4.8%	14.8%	8.9%	13.8%	7.5%	7.9%
<i>Large-Cap U.S. Value Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.09%	6.3%	14.8%	6.8%	13.0%	5.4%	6.5%
500 INDEX ADMIRAL - VFIAX	Stocks	15th	26th	0.05%	3.8%	11.9%	8.8%	14.6%	6.9%	6.7%
<i>Large-Cap U.S. Blend Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.04%	3.9%	10.4%	6.8%	13.2%	6.1%	6.2%
SELECTED VALUE - VASVX	Stocks	42nd	21st	0.39%	8.8%	16.3%	6.0%	14.3%	7.5%	9.7%
<i>Mid-Cap U.S. Value Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.22%	6.8%	18.1%	6.8%	13.8%	6.8%	8.5%
GROWTH INDEX ADMIRAL – VIGAX	Stocks	28th	27th	0.08%	-0.4%	6.1%	7.6%	14.1%	8.1%	6.6%
<i>Large-Cap U.S. Growth Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.17%	-0.3%	3.2%	5.7%	12.9%	6.9%	5.9%
MID-CAP GROWTH INVESTOR - VMGRX	Stocks	55th	41st	0.43%	0.7%	0.4%	3.7%	11.4%	7.5%	7.3%
<i>Mid-Cap U.S. Growth Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.27%	0.8%	6.0%	4.0%	11.8%	6.8%	7.0%
SMALL-CAP INDEX ADMIRAL - VSMAX	Stocks	33rd	28th	0.08%	6.1%	18.3%	7.0%	14.8%	8.2%	9.4%
<i>Small-Cap U.S. Blend Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.24%	9.5%	20.8%	5.9%	13.5%	6.8%	8.5%
INTERNATIONAL GROWTH ADMIRAL - VWILX	Foreign Stocks	26th	23rd	0.34%	-6.7%	1.8%	-1.5%	7.2%	2.6%	6.3%
<i>Foreign Large Growth Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.29%	-5.7%	-2.1%	-1.8%	6.2%	1.4%	5.4%
EMERGING MARKETS INDEX ADMIRAL - VEMAX	Foreign Stocks	54th	40th	0.15%	-3.9%	11.7%	-1.6%	1.4%	1.9%	9.3%
<i>Diversified Emerging Markets Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.52%	-5.3%	8.5%	-3.2%	1.6%	1.3%	8.9%
ENERGY ADMIRAL - VGELX	Energy Stocks	30th	1st	0.31%	5.5%	33.2%	-3.5%	1.7%	2.8%	10.0%
<i>Energy Sector Stock Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.50%	7.2%	29.2%	-9.0%	-1.5%	1.0%	7.2%

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

(All for periods ended December 31, 2016)

(1) A fund with a 6<sup>th</sup> 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 <sup>(1)</sup> Ranking Past		OER <sup>(2)</sup>	Total Return Performance for		Average Annualized Total Return for:			
		3 Years	5 Years		Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
TARGET RETIREMENT INCOME - VTINX	Target Date Retire Income	8th	29th	0.14%	-1.0%	5.3%	3.5%	4.9%	4.9%	N/A
<i>Retirement Income Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.86%	-0.9%	5.1%	2.6%	4.3%	3.6%	N/A
TARGET RETIREMENT 2015 - VTXVX	Target Date 2015	13th	31st	0.14%	-0.6%	6.2%	4.0%	7.2%	4.9%	N/A
<i>Target Date 2015 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.80%	-0.4%	6.1%	3.1%	6.5%	4.1%	N/A
TARGET RETIREMENT 2020 - VTWNX	Target Date 2020	3rd	10th	0.14%	-0.2%	7.0%	4.4%	8.2%	5.0%	N/A
<i>Target Date 2020 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.88%	-0.4%	6.2%	3.1%	6.5%	3.7%	N/A
TARGET RETIREMENT 2025 - VTTVX	Target Date 2025	3rd	18th	0.15%	0.1%	7.5%	4.5%	8.9%	5.0%	N/A
<i>Target Date 2025 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.87%	0.0%	6.7%	3.4%	7.7%	3.9%	N/A
TARGET RETIREMENT 2030 - VTHRX	Target Date 2030	6th	17th	0.15%	0.4%	7.9%	4.6%	9.5%	5.0%	N/A
<i>Target Date 2030 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.92%	0.3%	7.3%	3.5%	8.1%	3.9%	N/A
TARGET RETIREMENT 2035 - VTTHX	Target Date 2035	9th	16th	0.15%	0.8%	8.3%	4.7%	10.2%	5.1%	N/A
<i>Target Date 2035 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.90%	0.8%	7.6%	3.6%	8.9%	4.2%	N/A
TARGET RETIREMENT 2040 - VFORX	Target Date 2040	16th	14th	0.16%	1.1%	8.7%	4.7%	10.5%	5.3%	N/A
<i>Target Date 2040 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.94%	0.9%	8.0%	3.7%	9.0%	4.0%	N/A
TARGET RETIREMENT 2045 - VTIVX	Target Date 2045	13th	18th	0.16%	1.2%	8.9%	4.7%	10.5%	5.3%	N/A
<i>Target Date 2045 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.91%	1.1%	7.9%	3.8%	9.6%	4.2%	N/A
TARGET RETIREMENT 2050 - VFIFX	Target Date 2050	19th	17th	0.16%	1.3%	8.9%	4.7%	10.5%	5.3%	N/A
<i>Target Date 2050 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.95%	1.0%	8.2%	3.9%	9.3%	4.1%	N/A
TARGET RETIREMENT 2055 - VFFVX	Target Date 2055	17th	26th	0.16%	1.3%	8.9%	4.7%	10.5%	N/A	N/A
<i>Target Date 2055 Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.91%	1.2%	8.0%	3.9%	9.9%	N/A	N/A
TARGET RETIREMENT 2060 - VTTSX	Target Date 2060+	1st	n/a	0.16%	1.3%	8.8%	4.7%	N/A	N/A	N/A
<i>Target Date 2060+ Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		0.91%	1.2%	7.8%	3.3%	N/A	N/A	N/A
LIFE STRATEGY CONSERVATIVE - VSCGX	Conservative Allocation	10th	36th	0.13%	-1.1%	5.9%	4.2%	6.1%	4.4%	5.1%
<i>Conservative Allocation Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.21%	-0.2%	6.6%	2.9%	5.7%	4.1%	4.9%
LIFE STRATEGY GROWTH - VASGX	Aggressive Allocation	20th	19th	0.15%	0.8%	8.3%	4.7%	9.7%	4.7%	6.0%
<i>Aggressive Allocation Funds &gt;&gt;</i>		<i>Category Average &gt;&gt;</i>		1.32%	1.3%	7.9%	3.5%	8.8%	4.2%	5.5%