Chicago Blower Corporation Profit Sharing & 401(k) Plans

Compensation & Capital's Financial Planning Commentary as of December 31, 2022
"Easy Money? Tough Choices."

It's safe to say that you had plenty of company as you gazed in dismay/disbelief at 2022's investment losses on your 12/31/2022 Plan account statement. If you had the curiosity/courage to dig deeper into the what's, why's and how's of this ugliness, our memo's Pages 3 and 4 showed that only three funds out of the 28 fund options in your Plan turned in a non-negative return for 2022, the rest losing anywhere from -7% to -33%. The menu's "Vanguard Auto-Balanced" (Page 4) choices' 2022 losses ranged from -13% to -18%. Since the vast majority of CBC Plan participants adhere to time-tested investment strategies recommended by experienced and objective retirement advisors (including yours truly) 2022's losses were most likely shared by your friends. Misery loves company?

2022 provided ample reasons to bring us all together in a compassionate though tearful hug. Going back 94 years to 1928: 1) 2022 is the only year that both stocks and bonds lost more than 10%. 2) Bond's -17% was their worst 1-year loss; Stock's -18% loss was their fifth worst. 3) The perennially "Go-To" strategically moderate risk portfolio of 60% stocks / 40% bonds lost -18%, its third worst year following 1931 (-27%) and 1937 (-21%). Yes, 2022 was remarkable: Remarkably ugly. Remarkably unusual. But remarkably not impossible.

Now, we realize that these stats can be framed as hyperbole; an effort to blur the fact that our *Commentary's* "time-tested investment strategies" may have left you wondering "What next?" For many, especially younger Plan participants, this sort of framing reeks of "old school / old guy" wisdom. And though we appreciate the emotional source of that criticism, it's fundamentally flawed. Here's why:

Historically, financial advisors have diversified their clients' portfolios using three main asset classes: Stocks, Bonds, and cash equivalents like money markets. Progressive firms also add focused options like real estate, commodities, and derivatives – the reason the Vanguard Energy Fund is among the Plan's fund options. The idea is to have a mix of financial vehicles that perform differently under widely varying market conditions, maximizing the chances of a decent return. That's simple "Diversification." These various financial vehicles are then mixed into portfolios resulting in a range of "Strategic Asset Allocations" (SAA) or "risk profiles" from conservative (less stocks, more bonds) through moderate (slightly more stocks than bonds) to aggressive (more stocks, less bonds.) That's "Asset Allocation": Matching time horizon to risk profile. In general, more aggressive SAA's require far longer time horizons to realize their higher expected rates of return. Likewise, these more aggressive portfolios are destined to encounter more and deeper <u>short-term</u> downturns than their conservative cousins. Case in point: 2022. So investors with more time to absorb short-term downturns (like 2022's) trade-off stability for hopefully higher long-term returns. Investors who need short-term stability accept that construct's lower long-term returns.

Successful investors combine these two principles adding "Dollar Cost Averaging" (DCA) to take advantage of the wide range of day-to-day, year-to-year price swings so common to financial markets throughout history. DCA prompts savers in their accumulation years to regimentally buy (and retirees in their de-accumulation years to regimentally sell) the investments in their chosen SAA regardless of their current emotional perspective or relative market values. Buy low, sell high.

As we have so often noted, attempting to optimize every decision in investing and personal finance can quickly veer into the weeds. That's why our *Commentaries* and *Action Points* have always pointed you to choices that employ these broadly applied concepts (diversification, time-horizon-based acceptance of risk, and dollar cost averaging) executed with a healthy dose of patience. Simply put: We live in a world of radical uncertainty. The vast array of inputs acting upon any financial decision means that what may look to be an optimal choice at one moment can prove starkly ill-advised the next. Case in point: The crypto currency markets in 2022. That means that we must make and accept "good enough" decisions, building in enough buffer and flexibility to adapt and adjust over time. In short, protect the downside so we're not destroyed by an unforeseen event. It's been said: "Successful solutions are built on trade-off's." That couldn't be more valid when applied to your savings and investment choices.

Compensation & Capital's December 31, 2022
Retirement Saving and Investing "Action Points"

<u>When the Most Advisable Action is NO Action at All:</u>

The mission of our *"Action Points"* segment in these *Quarterly Memos* has often elicited a standard query from our plan participants audience. Generally speaking, the query follows the line: "Sometimes your *Action Points* discussions point me to definitive steps that I feel improve my chances for my retirement saving and investment success. But it seems that most of your *Action Points* advise *no* action. Am I missing something?"

First off, that's a fair point of inquiry. In short, this issue is an unavoidable result of attempting to communicate constructive retirement savings and investing habits across an audience of plan participants with a very broad range of demographics (age, career stage, health, family and household situations, etc), investment experience and sophistication, pre-conceived notions of what works for them, and emotional risk aversion. So, the combination of that mission with our very diverse, ever-evolving audience inevitably results in any one segment being an *Action Point* for one participant while for another simply a reinforcement of a habit they've long since adopted.

Second, there's another way we attempt to fulfill our "Action Points" mission. It's by attempting to demonstrate how our previously recommended methods worked (or didn't) in the face of recent and current investing, taxation and savings situations. The broadly unusual 2022 investment outcomes we laid out on Pg1 sets up nicely to employ this second method. In short: A remedial course to reinforce, or maybe initially introduce, the applicability of our previous lessons to 2022's surprises.

- *Just because a markets+economy combo hasn't happened for a very long time, doesn't mean it never will again.* Pg1's 2nd paragraph detailed just how unusual 2022's conditions and outcomes were. And how that set the stage for an adverse surprise for investors conditioned by many decades to believe that both stocks and safe bonds wouldn't post significant losses in the same year. Psychologists call this condition "recency bias." So our resultant "Action Point" is: Portfolios structured to produce <u>long-term</u> returns that should exceed returns available from short-term, risk-free investments (like CD's and money markets) can and will experience years (albeit small in number) in which the portfolio returns a loss. If your portfolio's risk profile and appropriate time horizon does not match your personal situation and ability to absorb possible short-term loss, adjust it. If you sustain a loss year in a portfolio structured to gather long term returns from risk assets, be patient and consider the loss part of the plan.
- *The notion of a flattening world has proven wrong. That makes diversification across stock investments as important as ever.* Originally published in 2005, Thomas Freidman's *The World is Flat* heralded the premise that the world was ripe for, and inevitably headed to, globalization and homogenization of markets. This led many in the financial media to climb on the "death of diversification" because a "flat" world's interconnected and homogeneous nature would neutralize the need for, and value of, diversification across U.S. *vs.* non-U.S *vs.* Emerging Markets stocks. That premise has proven flawed by the fact that although these three categories of stocks generally move in the same *direction*, their wide dispersion of absolute returns in the vast majority of years since 2000 demonstrates there remain significant benefits to diversification across these categories. Over the past 10 years U.S. stocks have been impressive indeed. But they're only game in town. Just one more unusual outcome in 2022: That over-performance switched to Non-U.S. stocks.
- *Ignore all market forecasts from so-called gurus.* A short 12 months ago, the Federal Reserve was telegraphing their belief that they would increase interest rates just three times to end 2022 at a policy rate below 1%. By year's end they had raised that rate seven times, ending the year with that rate around 4.50%. To be clear, this is NOT a criticism of our Federal Reserve. But if the institution that sets that rate can be so wrong in its forecast, what sort of confidence is appropriately placed in the forecasts of "experts" who are merely sitting in the stands? Tune out the forecasts of market strategists and adhere to your own well-conceived and personally appropriate savings and investment plans.

Page3: Chicago Blower Corporation Profit Sharing & 401(k) Plans' Vanguard Funds Performance Specifics and Comparatives

(All for periods ended December 31, 2022)

(1) A fund with a 2nd Ranking outperformed 98% 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 / *Morningstar Category Name*	Securities Type(s)	Morningstar™ Category Percentile (1) Ranking Past: 10 Years	15 Years	OER(2)	Total Return Performance for: Past Qtr	12 Mos	Average Annualized Total Return for: 3 Yrs	5 Yrs	10 Yrs	15 Yrs
TREASURY MONEY MARKET - VUSXX	**Money Market**	**2nd**	**6th**	**0.09%**	**0.9%**	**1.5%**	**0.7%**	**1.2%**	**0.7%**	**0.6%**
Money Market Funds >>		*Category Median >>*		*0.41%*	*0.8%*	*1.3%*	*0.5%*	*1.0%*	*0.6%*	*0.5%*
INTERMEDIATE TERM BOND INDEX ADM - VBILX	**Bonds**	**15th**	**5th**	**0.07%**	**1.9%**	**-13.3%**	**-2.4%**	**0.5%**	**1.3%**	**3.5%**
Intermediate Core Bond Funds >>		*Category Median >>*		*0.62%*	*1.6%*	*-13.3%*	*-2.7%*	*-0.2%*	*0.9%*	*2.6%*
INFLATION PROTECTED SECURITIES ADM - VAIPX	**Bonds**	**43rd**	**29th**	**0.10%**	**1.8%**	**-11.9%**	**1.1%**	**2.0%**	**1.0%**	**2.9%**
Inflation-Protected Bond Funds >>		*Category Median >>*		*0.62%*	*2.0%*	*-9.0%*	*1.2%*	*1.8%*	*0.8%*	*2.6%*
WELLINGTON ADMIRAL - VWENX	**Bonds & Stocks**	**6th**	**5th**	**0.16%**	**7.4%**	**-14.3%**	**4.2%**	**6.0%**	**8.5%**	**7.1%**
US Allocation – 50% to 70% Equity Funds >>		*Category Median >>*		*1.05%*	*5.7%*	*-13.6%*	*2.9%*	*4.1%*	*6.2%*	*5.1%*
EQUITY INCOME ADMIRAL - VEIRX	**Stocks**	**10th**	**8th**	**0.19%**	**13.9%**	**0.0%**	**9.0%**	**8.9%**	**11.8%**	**8.9%**
Large-Cap U.S. Value Stock Funds >>		*Category Median >>*		*0.96%*	*12.8%*	*-5.9%*	*7.0%*	*7.0%*	*10.2%*	*7.1%*
500 INDEX ADMIRAL - VFIAX	**Stocks**	**13th**	**16th**	**0.04%**	**7.6%**	**-18.2%**	**7.6%**	**9.4%**	**12.5%**	**8.8%**
Large-Cap U.S. Blend Stock Funds >>		*Category Median >>*		*0.86%*	*8.3%*	*-17.0%*	*6.9%*	*8.3%*	*11.3%*	*7.9%*
SELECTED VALUE - VASVX	**Stocks**	**37th**	**32nd**	**0.32%**	**16.2%**	**-7.4%**	**7.8%**	**5.4%**	**10.2%**	**8.1%**
Mid-Cap U.S. Value Stock Funds >>		*Category Median >>*		*1.04%*	*11.8%*	*-8.0%*	*6.8%*	*6.0%*	*9.6%*	*7.4%*
GROWTH INDEX ADMIRAL – VIGAX	**Stocks**	**29th**	**20th**	**0.05%**	**-0.1%**	**-33.1%**	**6.1%**	**9.6%**	**12.8%**	**9.5%**
Large-Cap U.S. Growth Stock Funds >>		*Category Median >>*		*1.00%*	*3.1%*	*-29.9%*	*4.7%*	*8.3%*	*11.8%*	*8.3%*
MID-CAP GROWTH INVESTOR - VMGRX	**Stocks**	**83rd**	**67th**	**0.33%**	**4.8%**	**-30.1%**	**0.8%**	**5.5%**	**9.1%**	**7.3%**
Mid-Cap U.S. Growth Stock Funds >>		*Category Median >>*		*1.10%*	*5.1%*	*-27.8%*	*4.1%*	*7.1%*	*10.7%*	*7.8%*
SMALL-CAP INDEX ADMIRAL - VSMAX	**Stocks**	**23rd**	**18th**	**0.05%**	**8.0%**	**-17.6%**	**4.9%**	**5.9%**	**10.1%**	**8.4%**
Small-Cap U.S. Blend Stock Funds >>		*Category Median >>*		*1.05%*	*9.1%*	*-16.4%*	*5.2%*	*4.9%*	*9.1%*	*7.3%*
INTERNATIONAL GROWTH ADMIRAL - VWILX	**Foreign Stocks**	**4th**	**4th**	**0.34%**	**12.6%**	**-30.8%**	**3.1%**	**4.8%**	**7.8%**	**4.7%**
Foreign Large Growth Stock Funds >>		*Category Median >>*		*1.07%*	*13.8%*	*-25.3%*	*0.0%*	*2.1%*	*5.3%*	*2.6%*
EMERGING MARKETS INDEX ADMIRAL - VEMAX	**Foreign Stocks**	**43rd**	**43rd**	**0.14%**	**8.2%**	**-17.8%**	**-1.5%**	**-0.4%**	**1.6%**	**0.7%**
Diversified Emerging Markets Stock Funds >>		*Category Median >>*		*1.24%*	*9.6%*	*-20.9%*	*-2.3%*	*-1.3%*	*1.5%*	*0.6%*
ENERGY ADMIRAL - VGELX	**Energy Stocks**	**50th**	**49th**	**0.33%**	**15.1%**	**23.8%**	**3.1%**	**0.6%**	**1.2%**	**0.2%**
Energy Sector Stock Funds >>		*Category Median >>*		*1.36%*	*20.3%*	*45.0%*	*14.0%*	*2.0%*	*-0.9%*	*-1.1%*

Page4: Chicago Blower Corporation Profit Sharing & 401(k) Plans' Vanguard Funds Performance Specifics and Comparatives

(All for periods ended December 31, 2022)

[1] A fund with a 40th Ranking outperformed 60% 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	Securities	Morningstar™ Category Percentile [1] Ranking Past			Total Return Performance for		Average Annualized Total Return for:			
Morningstar Category Name	Type(s)	10 Years	15 Years	OER[2]	Past Qtr	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs
Target Retirement Income - VTINX	**Target Date Retire Income**	**40th**	**26th**	**0.08%**	**3.7%**	**-12.7%**	**0.3%**	**2.3%**	**3.6%**	**4.0%**
Retirement Income Funds >>		*Category Median >>*		*0.67%*	*4.1%*	*-12.7%*	*0.2%*	*2.0%*	*3.3%*	*3.4%*
Target Retirement 2020 - VTWNX	**Target Date 2020**	**29th**	**19th**	**0.08%**	**5.0%**	**-14.2%**	**1.3%**	**3.2%**	**5.8%**	**4.8%**
Target Date 2020 Funds >>		*Category Median >>*		*0.62%*	*5.3%*	*-14.4%*	*1.1%*	*2.9%*	*5.4%*	*4.4%*
Target Retirement 2025 - VTTVX	**Target Date 2025**	**18th**	**17th**	**0.08%**	**6.0%**	**-15.6%**	**1.7%**	**3.6%**	**6.4%**	**5.0%**
Target Date 2025 Funds >>		*Category Median >>*		*0.67%*	*5.7%*	*-15.2%*	*1.4%*	*3.2%*	*5.7%*	*4.5%*
Target Retirement 2030 - VTHRX	**Target Date 2030**	**25th**	**28th**	**0.08%**	**6.8%**	**-16.3%**	**2.1%**	**3.9%**	**7.0%**	**5.3%**
Target Date 2030 Funds >>		*Category Median >>*		*0.68%*	*6.5%*	*-16.0%*	*2.1%*	*3.7%*	*6.5%*	*5.0%*
Target Retirement 2035 - VTTHX	**Target Date 2035**	**29th**	**23rd**	**0.08%**	**7.5%**	**-16.6%**	**2.6%**	**4.3%**	**7.6%**	**5.6%**
Target Date 2035 Funds >>		*Category Median >>*		*0.69%*	*7.4%*	*-16.9%*	*2.6%*	*4.2%*	*7.1%*	*5.1%*
Target Retirement 2040 - VFORX	**Target Date 2040**	**26th**	**26th**	**0.08%**	**8.2%**	**-17.0%**	**3.2%**	**4.7%**	**8.1%**	**5.9%**
Target Date 2040 Funds >>		*Category Median >>*		*0.71%*	*8.2%*	*-17.3%*	*3.1%*	*4.6%*	*7.5%*	*5.5%*
Target Retirement 2045 - VTIVX	**Target Date 2045**	**21st**	**20th**	**0.08%**	**8.9%**	**-17.4%**	**3.7%**	**5.1%**	**8.3%**	**6.1%**
Target Date 2045 Funds >>		*Category Median >>*		*0.71%*	*8.8%*	*-17.8%*	*3.5%*	*4.8%*	*7.7%*	*5.5%*
Target Retirement 2050 - VFIFX	**Target Date 2050**	**22nd**	**24th**	**0.08%**	**9.2%**	**-17.5%**	**3.8%**	**5.2%**	**8.4%**	**6.1%**
Target Date 2050 Funds >>		*Category Median >>*		*0.71%*	*9.0%*	*-18.0%*	*3.5%*	*4.9%*	*7.8%*	*5.5%*
Target Retirement 2055 - VFFVX	**Target Date 2055**	**25th**	**n/a**	**0.08%**	**9.2%**	**-17.5%**	**3.8%**	**5.2%**	**8.3%**	**N/A**
Target Date 2055 Funds >>		*Category Median >>*		*0.71%*	*9.1%*	*-18.1%*	*3.6%*	*4.9%*	*7.9%*	*N/A*
Target Retirement 2060 - VTTSX	**Target Date 2060**	**1st**	**n/a**	**0.08%**	**9.2%**	**-17.5%**	**3.8%**	**5.2%**	**8.3%**	**N/A**
Target Date 2060 Funds >>		*Category Median >>*		*0.72%*	*9.2%*	*-18.1%*	*3.6%*	*5.0%*	*8.3%*	*N/A*
Target Retirement 2065 - VLXVX	**Target Date 2065+**	**n/a**	**n/a**	**0.08%**	**9.2%**	**-17.4%**	**3.8%**	**5.2%**	**N/A**	**N/A**
Target Date 2065+ Funds >>		*Category Median >>*		*0.69%*	*9.3%*	*-18.3%*	*3.6%*	*4.9%*	*N/A*	*N/A*
Life Strategy Conservative - VSCGX	**Conservative Allocation**	**31st**	**51st**	**0.12%**	**4.6%**	**-15.0%**	**0.2%**	**2.5%**	**4.4%**	**4.0%**
Allocation – 30% to 50% Equity Funds >>		*Category Median >>*		*0.96%*	*4.8%*	*-13.3%*	*0.7%*	*2.3%*	*4.1%*	*4.0%*
Life Strategy Growth - VASGX	**Aggressive Allocation**	**34th**	**56th**	**0.14%**	**8.2%**	**-17.1%**	**3.1%**	**4.6%**	**7.6%**	**5.4%**
Allocation – 70% to 85% Equity Funds >>		*Category Median >>*		*1.01%*	*7.9%*	*-15.0%*	*3.6%*	*4.5%*	*7.0%*	*5.4%*