Dechert-Hampe & Company Employees' Savings and Profit Sharing Plan

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 employer 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!

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 employer contributions) is appropriate *only if it's initiated in your early 20's* <u>and</u> *unfailingly applied throughout entire your career* <u>and</u> *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.

Dechert-Hampe & Co Employees' Savings and Profit Sharing Plan 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 / *Morningstar Category Name*	Securities Type(s)	Morningstar™ Category Percentile [(1)] Ranking Past: 3 Years	10 Years	OER[(2)]	Total Return Performance for: Past Qtr	12 Mos	Average Annualized Total Return for: 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%**
Money Market Funds >>		*Category Average >>*		*0.17%*	*0.0%*	*0.0%*	*0.0%*	*0.1%*	*0.5%*	*1.9%*
TOTAL BOND MARKET INDEX SIGNAL - VBTSX	**Bonds**	**66th**	**48th**	**0.08%**	**2.0%**	**4.3%**	**3.6%**	**4.8%**	**4.9%**	**5.4%**
Intermediate Bond Funds >>		*Category Average >>*		*0.88%*	*2.1%*	*5.1%*	*4.1%*	*6.1%*	*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**
Inflation-Protected Bond Funds >>		*Category Average >>*		*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%**
Moderate Allocation Funds >>		*Category Average >>*		*0.95%*	*3.6%*	*16.0%*	*9.6%*	*12.6%*	*6.4%*	*5.2%*
WINDSOR II ADMIRAL - VWNAX	**Stocks**	**19th**	**28th**	**0.28%**	**4.6%**	**22.6%**	**16.5%**	**18.3%**	**8.0%**	**6.0%**
Large-Cap U.S. Value Stock Funds >>		*Category Average >>*		*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%**
Large-Cap U.S. Blend Stock Funds >>		*Category Average >>*		*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%**
Mid-Cap U.S. Value Stock Funds >>		*Category Average >>*		*1.26%*	*4.7%*	*25.4%*	*15.3%*	*20.5%*	*9.0%*	*9.0%*
MORGAN GROWTH ADMIRAL – VMRAX	**Stocks**	**57th**	**41st**	**0.25%**	**3.5%**	**25.6%**	**14.1%**	**18.4%**	**8.1%**	**4.9%**
Large-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*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%**
Mid-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*1.34%*	*2.7%*	*24.0%*	*12.6%*	*19.0%*	*8.8%*	*7.4%*
EXPLORER ADMIRAL - VEXRX	**Stocks**	**17th**	**40th**	**0.34%**	**1.6%**	**25.3%**	**15.1%**	**21.4%**	**9.1%**	**9.2%**
Small-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*1.41%*	*0.6%*	*22.4%*	*12.7%*	*19.9%*	*8.7%*	*7.8%*
INTERNATIONAL GROWTH ADMIRAL - VWILX	**Foreign Stocks**	**40th**	**21st**	**0.35%**	**3.1%**	**25.0%**	**7.7%**	**13.5%**	**8.7%**	**6.0%**
Foreign Large Growth Stock Funds >>		*Category Average >>*		*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%**
Diversified Emerging Markets Stock Funds >>		*Category Average >>*		*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%**
Energy Sector Stock Funds >>		*Category Average >>*		*1.54%*	*12.2%*	*32.3%*	*6.3%*	*13.3%*	*12.0%*	*12.0%*

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[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)	1 Year	5 Years	OER[2]	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**
Retirement Income Funds >>	*Category Average >>*			*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**
Target Date 2000-2010 Funds >>	*Category Average >>*			*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**
Target Date 2011-2015 Funds >>	*Category Average >>*			*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**
Target Date 2016-2020 Funds >>	*Category Average >>*			*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**
Target Date 2021-2025 Funds >>	*Category Average >>*			*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**
Target Date 2026-2030 Funds >>	*Category Average >>*			*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**
Target Date 2031-2035 Funds >>	*Category Average >>*			*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**
Target Date 2036-2040 Funds >>	*Category Average >>*			*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**
Target Date 2041-2045 Funds >>	*Category Average >>*			*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**
Target Date 2046-2050 Funds >>	*Category Average >>*			*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**
Target Date 2051+ Funds >>	*Category Average >>*			*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%**
Conservative Allocation Funds >>	*Category Average >>*			*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%**
Aggressive Allocation Funds >>	*Category Average >>*			*0.90%*	*4.0%*	*19.3%*	*10.5%*	*14.3%*	*6.7%*	*5.2%*