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

# Compensation & Capital's Financial Planning Commentary as of September 30, 2017
# "Don't Ever Forget: We're All Always Learning To Fly In These Markets"

Before we plunge headlong into this Commentary's money message, we trust you'll indulge us a moment of your time to tip our hat in farewell to our seemingly life-long friend, Tom Petty. For four decades, this fan honored Petty's unfailing recognition of responsibility to his fans to not only create and perform at an iconic level, but to do everything in his commercial power to throttle the music industry's insatiable greed and disregard for fans whose financially-strapped lives mirrored that of his own formative years. Along the way Petty and his bands carried the torch for guitar-based rock, inevitably selling out stadiums around the world no matter what kind of music was atop the pop charts at the time. We loved him for his honest, irresistible energy on stage as much as for his off-stage soft-spoken, ego-free persona. Rock hard, rest easy Tom. Thanks for the ride. So from rock icons to investment icons...

> *"I'm learning to fly, around the clouds*
> *But what goes up must come down.*
> *I'm learning to fly, but I ain't got wings*
> *Coming down is the hardest thing."*
> **Tom Petty | Jeff Lynne**

Without a doubt, the world of investment management has seen its share of rock stars over the past four decades. Most flame out after a stellar but relatively short run of killer performance. But in strong contrast to these one-hit-wonders are the far-between that, in their wake, have forced the industry to step up to a higher bar while sharing a dedication to their followers at the level we revered in Tom Petty. The vivid analogy to that honor is the founder of Vanguard Investments, John Bogel.

This past summer we were fortunate to stumble upon an essay by Bogel in the Certified Financial Analysts Institute's *Financial Analysts Journal.* In stark contrast to this journal's normal wonky fare, John Bogel's essay featured his unique brand of easily comprehended, timeless investing wisdom. In the spirit of "If it works, don't fix it," we've provided Mr. Bogel's lessons for you here unedited:

**Invest you must.** The biggest risk facing investors is not short-term volatility but, rather, the risk of not earning a sufficient return on their capital as it accumulates.

**Time is your friend.** Investing is a virtuous habit best started as early as possible. Enjoy the magic of compounding returns. Even modest investments made in one's early 20s are likely to grow to staggering amounts over the course of an investment lifetime.

**Impulse is your enemy.** Eliminate emotion from your investment program. Have rational expectations for future returns, and avoid changing those expectations in response to the ephemeral noise coming from Wall Street. Avoid acting on what may appear to be unique insights that are in fact shared by millions of others.

**Basic arithmetic works.** Net return is simply the gross return of your investment portfolio less the costs you incur. Keep your investment expenses low, for the tyranny of compounding costs can devastate the miracle of compounding returns.

**Stick to simplicity.** Basic investing is simple—a sensible allocation among stocks, bonds, and cash reserves; a diversified selection of middle-of-the-road, high-grade securities; a careful balancing of risk, return, and (once again) cost.

**Never forget reversion to the mean.** Strong performance by a mutual fund is highly likely to revert to the stock market norm—and often below it. Remember the biblical injunction, "So the last shall be first, and the first last" (Matthew 20:16, King James Bible).

**Stay the course.** Regardless of what happens in the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor. (Just ask investors who moved a significant portion of their portfolio to cash during the depths of the financial crisis, only to miss out on part or even all of the subsequent eight-year—and counting—bull market that we have enjoyed ever since.) "Stay the course" is the most important piece of advice I can give you.

Bogel's lessons are an amalgamation of much of the meat of our *Commentary's* message over its past 17+ years of quarterly editions. They reinforce the fact that regardless of one's investing experience, we must all be ever-cognizant that no one, however famous, possesses any control over the turbulence of markets in which we invest – only over our ability to walk away from their inevitable landings so we can fly once again?

## Historic Highs in Both Bonds and Stocks Worldwide? How Can That Be? What Gives?

Diversification, diversification, diversification. Seems its perceived virtues precede it at every level of investing education and advise. It's embedded in one of John Bogel's seven lessons ("Stick to simplicity.") excerpted on our Pg 1. It's been a stalwart of our own "Action Points" since this memo's inception. And yes, it does work as advertised.

Simply put, it's a relatively simple means by which your portfolio's susceptibility to market risk in any single investment class (like stocks, bonds, currencies, commodities, etc.) can be managed to suit your needs for protection against significant selloffs in that type of investment. The technique hangs its laurels on the theory that such diverse investment classes respond markedly differently – and for the most part in opposite directions – to various market stimuli. And that allows diversification to promote a more balanced, less volatile portfolio with any given set of market inputs over appropriate periods of time relative to your targeted level of portfolio risk.

But as is often true in investing, the exception to a rule can often present itself to be the norm, at least in the short term. Recently, the theoretical anti-correlation between stock values and bond values has succumbed to one of those exception periods. As we alluded to in our title for this segment, both classes stand at historic high valuations. Why? And what does this phenomenon do to our efforts to mitigate portfolio risk through diversification?

As to the "Why" part, it can certainly seem as though there are as many explanations as there are explainers! Here's one of several that currently holds sway for us:

Fallout from the 2008-09 capital crisis produced many game-changing outcomes, at least during short-to-medium term time horizons unfolding thereafter. Among the most striking has been the build-up of historic "piles" of cash around the globe. In fact, "cash" hordes worldwide are estimated to be around $110Trillion, which happens to be equal to a bit over the entire worldwide productive annual output of goods and services known as "Global GDP." If that's just another meaningless stat for you, consider its impact in more personal terms. Would you feel more or less averse to the risk of short-term investment losses in your 401(k) Plan account if: (a) your checkbook held the equivalent of your gross annual compensation, or (b) if it was running on fumes? If you behave like the vast majority of investors, you're considerably more comfortable taking investment risk when you have a bunch of cash saved up.

That historically huge global pile of cash (~$110Trillion,) including its equivalent securities like money market funds and CD's, has brought it to an absolute level that's now numerically significant relative to the total values of global stocks (~$80Trillion) and global bonds (~$200Trillion.) That means this investment class called "cash" (and often referred to as "Foreign Exchange") is therefore now sufficiently large to absorb a far larger portion of market fluctuations in the values of its celebrity cousins of the diversification family, the global markets in stocks and bonds.

So if you're now thinking: *"That's interesting but how should I then invest my 401(k)?"* Here's our take:

The value of a country's currency reflects (among other things) its economy's and its financial assets' (stocks and bonds issued from that country) relative strength in comparison to its global competitors. As its currency's value fluctuates, that movement impacts the value of its stocks and bonds. So by having an appropriate representation of non-U.S. based stocks and bonds in your 401(k), you've created a "back-door" method of diversifying your account for currency fluctuations. Mixing your Plan account in accordance with our Sample Portfolios or investing in one of the Plan's Vanguard Auto-Balanced Funds are simple, effective ways to participate in these non-U.S. financial instruments.

## Dechert-Hampe & Co Employees' Savings and Profit Sharing Plan Vanguard Funds Performance Specifics and Comparatives

***(All for periods ended September 30, 2017)***

(1) A fund with a 17th Ranking outperformed 83% 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **TREASURY MONEY MARKET - VUSXX** | **Money Market** | **17th** | **16th** | **0.09%** | **0.2%** | **0.6%** | **0.3%** | **0.2%** | **0.4%** | **1.2%** |
| *Money Market Funds >>* | | *Category Average >>* | | *0.33%* | *0.2%* | *0.5%* | *0.2%* | *0.2%* | *0.3%* | *1.2%* |
| **TOTAL BOND MARKET INDEX ADMIRAL - VBTLX** | **Bonds** | **45th** | **58th** | **0.05%** | **0.7%** | **-0.1%** | **2.6%** | **2.0%** | **4.2%** | **4.2%** |
| *Intermediate Bond Funds >>* | | *Category Average >>* | | *0.78%* | *0.9%* | *0.8%* | *2.5%* | *2.1%* | *4.3%* | *4.3%* |
| **INFLATION PROTECTED SECURITIES ADM - VAIPX** | **Bonds** | **16th** | **29th** | **0.10%** | **0.8%** | **-1.0%** | **1.6%** | **-0.1%** | **3.8%** | **4.3%** |
| *Inflation-Protected Bond Funds >>* | | *Category Average >>* | | *0.71%* | *0.8%* | *-0.4%* | *1.1%* | *-0.3%* | *3.3%* | *3.8%* |
| **WELLINGTON ADMIRAL - VWENX** | **Bonds & Stocks** | **3rd** | **7th** | **0.16%** | **3.4%** | **13.3%** | **8.0%** | **10.2%** | **7.0%** | **9.3%** |
| *US Allocation – 50% to 70% Equity Funds >>* | | *Category Average >>* | | *1.16%* | *3.0%* | *10.5%* | *5.4%* | *7.5%* | *5.1%* | *7.5%* |
| **WINDSOR II ADMIRAL - VWNAX** | **Stocks** | **56th** | **46th** | **0.25%** | **2.3%** | **16.6%** | **7.9%** | **12.3%** | **5.9%** | **9.7%** |
| *Large-Cap U.S. Value Stock Funds >>* | | *Category Average >>* | | *1.05%* | *3.8%* | *16.2%* | *8.0%* | *12.2%* | *5.7%* | *91%* |
| **500 INDEX ADMIRAL - VFIAX** | **Stocks** | **14th** | **21st** | **0.04%** | **4.5%** | **18.6%** | **10.8%** | **14.2%** | **7.4%** | **10.0%** |
| *Large-Cap U.S. Blend Stock Funds >>* | | *Category Average >>* | | *0.99%* | *4.2%* | *17.7%* | *9.0%* | *12.9%* | *6.6%* | *9.3%* |
| **SELECTED VALUE - VASVX** | **Stocks** | **35th** | **17th** | **0.35%** | **5.0%** | **23.5%** | **9.3%** | **14.5%** | **8.4%** | **11.7%** |
| *Mid-Cap U.S. Value Stock Funds >>* | | *Category Average >>* | | *1.14%* | *3.1%* | *14.8%* | *7.9%* | *12.7%* | *6.9%* | *10.6%* |
| **MORGAN GROWTH ADMIRAL – VMRAX** | **Stocks** | **22nd** | **45th** | **0.28%** | **6.6%** | **22.5%** | **12.4%** | **15.0%** | **7.9%** | **10.8%** |
| *Large-Cap U.S. Growth Stock Funds >>* | | *Category Average >>* | | *1.13%* | *5.3%* | *19.8%* | *10.4%* | *13.7%* | *7.6%* | *9.9%* |
| **MID-CAP GROWTH INVESTOR - VMGRX** | **Stocks** | **77th** | **46th** | **0.36%** | **4.2%** | **16.0%** | **7.7%** | **11.7%** | **7.2%** | **10.8%** |
| *Mid-Cap U.S. Growth Stock Funds >>* | | *Category Average >>* | | *1.23%* | *4.6%* | *18.2%* | *9.1%* | *12.6%* | *6.9%* | *10.6%* |
| **EXPLORER ADMIRAL - VEXRX** | **Stocks** | **67th** | **44th** | **0.34%** | **4.5%** | **18.8%** | **10.1%** | **14.1%** | **7.8%** | **11.2%** |
| *Small-Cap U.S. Growth Stock Funds >>* | | *Category Average >>* | | *1.29%* | *5.6%* | *20.4%* | *11.2%* | *13.0%* | *7.6%* | *11.1%* |
| **INTERNATIONAL GROWTH ADMIRAL - VWILX** | **Foreign Stocks** | **6th** | **4th** | **0.33%** | **10.7%** | **28.3%** | **10.6%** | **11.6%** | **4.3%** | **10.5%** |
| *Foreign Large Growth Stock Funds >>* | | *Category Average >>* | | *1.23%* | *6.5%* | *18.5%* | *7.0%* | *8.8%* | *2.3%* | *8.6%* |
| **EMERGING MARKETS INDEX ADMIRAL - VEMAX** | **Foreign Stocks** | **58th** | **54th** | **0.14%** | **7.8%** | **18.9%** | **4.0%** | **3.6%** | **1.0%** | **12.2%** |
| *Diversified Emerging Markets Stock Funds >>* | | *Category Average >>* | | *1.44%* | *7.3%* | *19.9%* | *3.9%* | *4.1%* | *1.3%* | *12.0%* |
| **ENERGY ADMIRAL - VGELX** | **Energy Stocks** | **8th** | **26th** | **0.33%** | **7.7%** | **2.3%** | **-5.3%** | **0.4%** | **0.0%** | **10.4%** |
| *Energy Sector Stock Funds >>* | | *Category Average >>* | | *1.46%* | *7.2%* | *-3.8%* | *-13.7%* | *-4.7%* | *-2.8%* | *7.8%* |

## Dechert-Hampe & Co Employees' Savings and Profit Sharing Plan Vanguard Funds Performance Specifics and Comparatives

***(All for periods ended September 30, 2017)***

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

(1) A fund with a 33rd Ranking outperformed 67% of its peers.

(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 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **TARGET RETIREMENT INCOME - VTINX** | **Target Date Retire Income** | **33rd** | **12th** | **0.13%** | **2.0%** | **5.3%** | **4.3%** | **4.7%** | **4.9%** | **N/A** |
| *Retirement Income Funds >>* | *Category Average >>* | | | *0.81%* | *2.1%* | *5.8%* | *3.9%* | *4.2%* | *3.8%* | *N/A* |
| **TARGET RETIREMENT 2015 - VTXVX** | **Target Date 2015** | **43rd** | **18th** | **0.14%** | **2.6%** | **8.0%** | **5.4%** | **6.9%** | **4.9%** | **N/A** |
| *Target Date 2015 Funds >>* | *Category Average >>* | | | *0.76%* | *2.7%* | *8.1%* | *5.0%* | *6.2%* | *4.1%* | *N/A* |
| **TARGET RETIREMENT 2020 - VTWNX** | **Target Date 2020** | **13th** | **8th** | **0.14%** | **3.1%** | **10.2%** | **6.2%** | **8.1%** | **5.2%** | **N/A** |
| *Target Date 2020 Funds >>* | *Category Average >>* | | | *0.83%* | *2.9%* | *8.9%* | *5.2%* | *6.4%* | *4.1%* | *N/A* |
| **TARGET RETIREMENT 2025 - VTTVX** | **Target Date 2025** | **15th** | **14th** | **0.14%** | **3.5%** | **11.7%** | **6.8%** | **8.9%** | **5.2%** | **N/A** |
| *Target Date 2025 Funds >>* | *Category Average >>* | | | *0.81%* | *3.3%* | *10.9%* | *5.9%* | *7.5%* | *4.4%* | *N/A* |
| **TARGET RETIREMENT 2030 - VTHRX** | **Target Date 2030** | **25th** | **21st** | **0.15%** | **3.9%** | **13.3%** | **7.2%** | **9.6%** | **5.3%** | **N/A** |
| *Target Date 2030 Funds >>* | *Category Average >>* | | | *0.86%* | *3.7%* | *12.5%* | *6.5%* | *8.2%* | *4.5%* | *N/A* |
| **TARGET RETIREMENT 2035 - VTTHX** | **Target Date 2035** | **30th** | **20th** | **0.15%** | **4.2%** | **14.8%** | **7.6%** | **10.3%** | **5.5%** | **N/A** |
| *Target Date 2035 Funds >>* | *Category Average >>* | | | *0.84%* | *4.1%* | *14.4%* | *7.0%* | *9.1%* | *4.7%* | *N/A* |
| **TARGET RETIREMENT 2040 - VFORX** | **Target Date 2040** | **30th** | **19th** | **0.16%** | **4.5%** | **16.3%** | **8.0%** | **10.8%** | **5.7%** | **N/A** |
| *Target Date 2040 Funds >>* | *Category Average >>* | | | *0.88%* | *4.3%* | *15.3%* | *7.3%* | *9.4%* | *4.7%* | *N/A* |
| **TARGET RETIREMENT 2045 - VTIVX** | **Target Date 2045** | **27th** | **20th** | **0.16%** | **4.7%** | **16.8%** | **8.1%** | **10.9%** | **5.8%** | **N/A** |
| *Target Date 2045 Funds >>* | *Category Average >>* | | | *0.85%* | *4.5%* | *16.1%* | *7.6%* | *9.8%* | *4.9%* | *N/A* |
| **TARGET RETIREMENT 2050 - VFIFX** | **Target Date 2050** | **30th** | **24th** | **0.16%** | **4.7%** | **16.8%** | **8.2%** | **10.9%** | **5.8%** | **N/A** |
| *Target Date 2050 Funds >>* | *Category Average >>* | | | *0.89%* | *4.5%* | *16.2%* | *7.6%* | *9.8%* | *4.9%* | *N/A* |
| **TARGET RETIREMENT 2055 - VFFVX** | **Target Date 2055** | **37th** | **n/a** | **0.16%** | **4.7%** | **16.9%** | **8.1%** | **10.9%** | **N/A** | **N/A** |
| *Target Date 2055 Funds >>* | *Category Average >>* | | | *0.85%* | *4.6%* | *16.6%* | *7.8%* | *10.2%* | *N/A* | *N/A* |
| **TARGET RETIREMENT 2060 - VTTSX** | **Target Date 2060+** | **61st** | **n/a** | **0.16%** | **4.7%** | **16.8%** | **8.1%** | **10.9%** | **N/A** | **N/A** |
| *Target Date 2060+ Funds >>* | *Category Average >>* | | | *0.84%* | *4.7%* | *16.9%* | *8.3%* | *10.9%* | *N/A* | *N/A* |
| **LIFE STRATEGY CONSERVATIVE - VSCGX** | **Conservative Allocation** | **13th** | **46th** | **0.13%** | **2.5%** | **7.0%** | **5.3%** | **6.1%** | **4.5%** | **6.4%** |
| *Allocation – 30% to 50% Equity Funds >>* | *Category Average >>* | | | *1.18%* | *2.4%* | *7.0%* | *4.1%* | *5.3%* | *4.4%* | *6.2%* |
| **LIFE STRATEGY GROWTH - VASGX** | **Aggressive Allocation** | **21st** | **45th** | **0.15%** | **4.2%** | **14.8%** | **7.7%** | **10.0%** | **5.1%** | **8.6%** |
| *Allocation – 70% to 85% Equity Funds >>* | *Category Average >>* | | | *1.25%* | *3.6%* | *12.8%* | *6.0%* | *8.9%* | *4.7%* | *7.8%* |