10 January, 2008
Volume 2, Issue 1

Roffman Miller Review

A Quarterly Newsletter from Roffman Miller Associates

Letter from the President

Happy New Year. Well, not so far – as this letter goes to print, the market has given up virtually all of last year's gains. What began as the worst start to a new year since 1932 (the throes of the Great Depression) has accelerated into what may be the worst first full week of trading on record.

Some things seem quite obvious right now: the cumulative effect of the housing and credit woes has put tremendous pressure on stock prices. A looming slowdown in U.S. gross domestic product is being anticipated by the Fed, which is, in turn, expected by many economists to continue lowering interest rates. Businesses and individuals are bracing for higher energy costs. At present, the market is pricing in many of these factors. How many, and to what degree, we can not know for sure. But experience tells us that markets overdo it in both good times and bad. We also know that dramatically lower interest rates will likely accelerate a recovery.

2007 gains in the U.S. markets were modest by historic standards. Most of the developed markets around the world shared in the dampened enthusiasm: Japan down 11%, France's CAC40 index up 1.3%, England's FTSE100 up 3.8%. Germany was the standout at +22%. Here in the U.S., investors were rewarded for taking on more risk in their portfolios. By way of example, the technology sector outperformed the broader market. More aggressive investments will likely lead to the downside if markets continue to retrench in 2008 and that, in a nutshell, is the risk of aggressive investing. To the contrary, we will continue to consider our securities based on not only the strength of management and their business franchise, but also current valuation relative to peers and historical comps. In other words we are still excited about owning stocks, and we want to buy them based on their future potential and not because they were last year's great ideas.

Our friends at Davis Advisors, an investment firm run by the Davis family since 1947, put together a recent publication simply titled, 'The Successful Investor.' Because their words echoed many of the sentiments we've tried to express over the years, I thought I'd share a few of them with you here:

> **Uncertainty is the rule, not the exception**. Long term investors are always faced with uncertainty, but through it all the progress of the stock market has not been derailed.
>
> **Be patient.** Investors repeatedly abandon a sensible wealth-building strategy just because it is not generating short-term results, and almost without fail, give up on it at precisely the wrong time.
>
> **Expect periods of disappointment.** Charlie Munger, Warren Buffet's partner at Berkshire Hathaway, delivered a 14 year cumulative gain of 1,156% versus only 103.3% for the S&P500. However, he underperformed the S&P500 in five of the fourteen years.
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> **Engage in Healthy Investor Behavior.** When faced with such situations (short-term disappointments), most investors tend to engage in unhealthy investor behavior and may abandon their long-term investment strategies, chase the hot performing categories or try to time the market in some fashion. Multiple studies have shown that the average individual investing in mutual funds earns less than the funds because of this behavior.

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Fast Facts:

- Companies in the S&P500 paid out an aggregate $246.6 billion in dividends last year, up 9.7% from 2006. That makes for a 1.9% yield on the $12.7 trillion current market capitalization of the S&P500.
- Index components are more likely than other companies to pay dividends and hike them. Last year, 77.8% of the S&P500's constituents paid dividends versus 38.7% of non-S&P companies. More than 60% of the S&P stocks raised their dividend, compared with 28% of the non-members.

Source: Barron's

Meet the Roffman Miller Team

One of the key strengths of Roffman Miller Associates is our team approach. Each quarter we will highlight several of our team members who, collectively, bring over 135 years of experience to the firm.

Ryan Crooks joined our team as an Investment Manager in 2007. Ryan brings extensive fixed income experience to Roffman Miller – he last held the position of Vice President, Fixed Income Capital Markets, with Spear, Leeds & Kellogg, and prior to that he held similar positions in the institutional fixed income departments of FTN Financial and Sterne, Agee & Leach. Ryan holds a BS in Finance from the University of Scranton and recently earned an MBA in Investment Management from Drexel. Ryan lives in Philadelphia with his wife Jill.

In November we welcomed **Jennifer Tinney** as our new Operations Manager, where she will be assuming responsibilities from Lori Blum. Jen joined us in 2007 after five years with Dearden, Maguire, Weaver and Barrett, LLC, an investment management firm located in West Conshohocken, PA. Prior to that Jennifer was a Business Administration student at Cabrini College. Today, Jen and her son Alexander live in Philadelphia.

It's Time to Start Thinking About the Estate Tax Again

Back in 2001, the Economic Growth and Tax Relief Reconciliation Act triggered a gradual increase in the dollar threshold of estates subject to the estate tax. In tax year 2008, estates valued at more than $2 million may be taxed as much as 45 percent, while in tax year 2009, the threshold will increase to $3.5 million. The year after that, the tax will be repealed for a year.

However, in 2011, unless Congress acts, the party's over. The estate tax will be reset at up to 55 percent on estates at a significantly lower threshold – $1 million.

While bills continue to swirl around Congress and many expect a Band-Aid of some sort before 2011, no one seems to believe that the so-called "death tax" is likely to be eliminated altogether. That makes it tough for individuals to set a clear course for their own estate planning. If you suspect your estate or the estate of relatives you might inherit from may fall prey to the estate tax, it makes sense right now to enlist the help of experts. Assets may be expected to grow over time, and your estate may turn out to be larger than you may think. You should be talking to estate and tax specialists as well as financial advisors such as Certified Financial Planner™ professionals.

Here are some things to keep in mind as you plan those conversations:

If your assets are expected to increase: A grantor-retained annuity trust, or GRAT, is an irrevocable trust that is popular among families with assets that are expected to increase, because such appreciation can be passed on to heirs with minimal tax consequences.

Prepare a gifting strategy: Under current law, unlimited amounts can be left to a spouse or to charity free of federal estate tax. Other heirs can receive a total of $2 million, tax-free, when deaths occur in 2007 or 2008. If your assets are over the estate tax limit, it might make sense to devise a gifting strategy that spends down your total taxable estate while still allowing you a comfortable lifestyle. You might, for instance, consider making direct payments for someone else's medical bills or education tuition. No gift tax applies for these items, so payments can be unlimited.

This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Bob Hofmann, a local member of FPA.

Tax Corner

The Kiddie Tax
Paulette Greenwell

The 'kiddie' tax was created in 1986 to keep parents from sheltering income by putting accounts in the names of their lower-taxed children. In its original form, a portion of investment earnings held by a child were tax-free. Another portion of earnings were taxed at the child's tax rate. Any amounts over that second earnings threshold were taxed at the parent's tax rate. Relief arrived once the child turned 14, and the excess earnings were again taxed at the child's lower rate.

In 2006 the law raised the age to 18 years old, and placed new limits on how much could be taxed at the lower rate. The first $850 was still tax-free, and the next $850 was taxed at the preferable 15 percent. However, any amounts over that were taxed at the parent's tax rate.

Effective Jan. 1, 2008, the kiddie tax will apply to children age 18 and younger as well as college students under the age of 24. The only way that college students under age 24 will be able to avoid the kiddie tax is if they provide over half of their own support from their earned income or if they are married. There is also no provision for grandfathering children who were over 18 in 2007, but younger than 24 in 2008.

But remember wages and other *earned* income received by a child of any age are taxed at the child's normal rate and the parent's tax rate is only applied to *unearned* income over $1,700. The unearned income limits in 2008 should also be adjusted upwards slightly based on inflation.

Going forward, parents of younger children may want to focus on three things: 1) limiting their taxable unearned income until they are older and won't have to pay the kiddie tax, 2) investing in tax-deferred Coverdell Education Savings Accounts and 529 college savings plans, and 3) seeking the maximum after-tax return on their investments.

Tax-Rate Tables

Here are federal income-tax brackets for 2008 compared with 2007 levels:

MARRIED COUPLES FILING JOINTLY		
TAX RATE	2008 TAXABLE INCOME	2007 TAXABLE INCOME
10%	Not over $16,050	Not over $15,650
15	Over 16,050-65,100	15,650-63,700
25	Over 65,100 - 131,450	63,700-128,500
28	Over 131,450 - 200,300	128,500 – 195,850
33	Over 200,300 – 357,700	195,850 – 349,700
35	Over 357,000	Over 349,700

MOST SINGLE FILERS		
TAX RATE	2008 TAXABLE INCOME	2007 TAXABLE INCOME
10%	Not over $8,025	Not over $7,825
15	Over 8,025 – 32,550	7,825 – 31,850
25	Over 32,550 – 78,850	31,850 – 77,100
28	Over 78,850 – 164,550	77,100 – 160,850
33	Over 164,550 – 357,700	160,850 – 349,700
35	Over 357,700	Over 349,700

Source: IRS

On the Lighter Side of Taxes: The Story of Lady Godiva

According to the popular story, the beautiful Lady Godiva took pity on the people of Coventry, who were suffering grievously under her husband's oppressive taxation. Lady Godiva appealed again and again to her husband, who obstinately refused to remit the tolls. At last, weary of her entreaties, he said he would grant her request if she would ride naked through the streets of the town. Lady Godiva took him at his word and, after issuing a proclamation that all persons should keep within doors or shut their windows, she rode through, clothed only in her long hair. Only one person in the town, a tailor ever afterwards known as Peeping Tom, disobeyed her proclamation in one of the most famous instances of voyeurism. In the story, Tom bores a hole in his shutters so that he might see Godiva pass, and is struck blind. In the end, Godiva's husband keeps his word and abolishes the onerous taxes.

Reminders

Avoid IRA mistakes…

Be aware of the income limits for Roth IRA contributions: Contributions for a married couple filing jointly are phased out between $159,000 and $169,000 adjusted gross income (AGI). For a single filer the contribution limit is phased out between $101,000 and $116,000. If you are married but filing separately, you can not contribute to a Roth IRA if your AGI is above $10,000 (TEN thousand; not a misprint).

…and know your contribution limits

2007 IRA contributions can be made up until April 15, 2008. Contribution limits are $4,000 for individuals under 50 years old, and $5,000 for those over 50. 2008 IRA contribution limits are $5,000 and $6,000, and can be made immediately. IRS limits for 401(k) contributions are $15,500 and $20,500, but those are subject to the rules of your employer's plan.

2007 Taxes

Realized Gain and Loss Summary statements will be mailed by January 31st, 2008. Your tax preparer will need this summary to prepare your 2007 taxes. 1099s will be mailed by your custodian (e.g. Schwab).

Only put off until tomorrow what you are willing to die having left undone. – Pablo Picasso

Review your wills, trusts, and estate plan in 2008 including beneficiaries and gifting strategies.

The avoidance of taxes is the only intellectual pursuit that carries any reward. – John Maynard Keynes

Take full advantage of the tax-deferred savings plan offered by your employer, and consult your tax preparer and estate attorney for other tax saving ideas.

Letter from the President continued…

2008 marks the second year for this newsletter. As such, we feel this is a good time to revisit the topics we touched upon throughout the previous year. Reading my previous four letters, I made the following notes: in January we mentioned the possibility of a slowing US economy. In April we elucidated some of the risks to the current market (energy costs, subprime, housing, war) and questioned those risks that were still unknown. By July the unknown risk had a name: structured credit, the derivatives of bonds that were backed by subprime mortgages. We also predicted that value investing would regain its leadership over growth. By October the housing market and banking industry appeared to be in complete collapse. Our advice then, as now, was in concert with the words from Davis Advisors: expect the unexpected, invest in good businesses, and look at the opportunities beyond the short term. The new year will present its own short term challenges that will occasionally cast doubt on the longer-term plans of many investors. With these thoughts in mind, we invite you to meet with us early this year and review your investment strategy and expectations.

Peter Miller

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Contact Information

As always, we invite you to call us and make an appointment to review your portfolio.

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