# Roffman Miller Review

A Quarterly Newsletter from Roffman Miller Associates

## Letter from the President

They say that March goes in like a lion and out like a lamb. Admittedly, I've said this myself. If this were a typical year, the markets would have supported the old adage; absent the quadrennial appearance of February 29th on this year's calendar, March 1st would have been the day that a roaring 315 point loss tore into the Dow Jones Industrial Average, translating to a 2.7% decrease in the even broader S&P500 Index. Fast forward to what normally would be March 31st and the indexes gingerly exited the month 391 Dow points to the up-side on the day, a 3.6% increase in the S&P. But this month, this leap year in fact, has been anything but typical. Let me break it down by the numbers: The S&P500 Index closed down 9.9% year-to-date. In comparison, Germany's DAX tumbled 19%, the Nikkei fell 18%, France's CAC40 dropped 16%, and the U.K.'s FTSE 100 ended off 12%. Many of last year's emerging market high-fliers have lost 20% and more this year so far.

In other areas, the dollar lost ground to foreign currencies once again – giving up 7% to the Euro and 10% to the Yen. Commodities rose for the period, but by the end of the quarter most prices were off their highs. In fact, one could speculate that the continuous inflow of cash into commodities and related investments is pushing the underlying prices to levels that fundamental supply and demand can not justify. More on that later.

So far this decade is turning out to have one of the lowest return markets in history. On an absolute basis, we haven't had a lower average annualized return for large company stocks since the Depression. Using an inflation adjusted basis, the only time in history that was worse than today was the 1970s. This is not meant to be pessimistic, only realistic. If it seems the news media is especially negative and only the bad news is being reported, it is partially due to the fact that we are now entering the eighth year of the decade and very few people are happy with the U.S. market returns. You may be wondering, as most investors are, what to do now. The good news is that the decade following a low return decade can be rewarding, further evidence that it is often necessary to endure the difficult times in order to appreciate (or even to experience) the good.

About a year ago we wrote in this very space about the collapse of some Bear Stearns hedge funds. In late March 2008, as Bear itself was on the brink of insolvency, JP Morgan announced a deal to purchase Bear Stearns in its entirety at quite a discount to its recent market price, with both the support and blessing of the Federal Reserve. With this event there are several important observations the astute investor should make: first, there is no bank 'too big to fail.' What regulators have told us is that Bear Stearns would have been forced to shut its doors on Monday, March 24th if the JP Morgan deal was not inked on the preceding Sunday evening. Second, federal regulators felt that it was in the best interest of the country that Bear Stearns did not default on their obligations, and went on to prove that by assisting in the JP Morgan negotiations and providing guarantees on some portion of Bear's obligations – a further sign that federal agencies were willing to do more to restore faith in the banks and banking system.

While we can't assume that there will not be further failures (or near failures) among banks, a great degree of confidence has been restored which would lead one to believe that the U.S. government and its agencies will do everything possible to prevent a systemic financial industry failure. Of course they would! Who would have thought otherwise? What remains to analyze and evaluate, then, is the impact of these recent events on the U.S. consumer, economy, dollar, and markets.

I mentioned commodities earlier, and commodities have certainly been a topic of conversation for the past few years, so let's spend a brief moment on this. Oil, gold, and grains are all commodities. Many people have begun to consider them as a wise investment in their portfolios due to the recent run-up in virtually all commodity prices. While we are not going to denounce the asset class, we would like to add a word of caution. A commodity, by definition is 'an article of trade or commerce, especially a product as distinguished from a service.' Unless we begin to run out of the commodity, or demand increases at a pace that far outstrips the ability to supply, prices can not sustain premiums over the long run. Surely some have lost patience waiting for this economic theory to materialize (I reference the old saying, 'you can go broke waiting for sanity to return to the markets'), but for now we choose to err on the side of caution. **(continued on page 3)**

# Meet the Roffman Miller Team

**One of the key strengths of Roffman Miller Associates is our team approach. Our team members, collectively, bring over 135 years of experience to the firm.**

**Updated Photos and Bios can be found on our website: www.RoffmanMiller.com**

## Joint Account – what does that really mean?

There are both tax and non-tax motives to establish different structures of property ownership when held by more than one individual concurrently. There is no one answer with regard to arrangements of property ownership - generally, a combination of different ownership arrangements may provide the best results in good estate planning. We recommend reviewing this topic periodically with your Estate Attorney.

Joint account ownership structure falls into one of three categories. It is Roffman Miller's policy, unless instructed otherwise, to open accounts as Joint Tenants with Rights of Survivorship (JTWOS). It is important to periodically review the titling of all of your assets. Below is a chart explaining each structure of concurrent ownership:

| Property Ownership: | Tenancy In Common | Joint Tenants with Rights of Survivorship | Tenancy by the Entirety |
|---|---|---|---|
| **Permitted Number of Owners:** | Ownership by two or more individuals | Ownership by two or more individuals | Ownership only by two married individuals |
| **Must Owners Be Related?** | No | No | Yes, must be married |
| **Is Ownership Equal?** | Ownership may be equal or unequal (a percentage ownership is assigned to each joint owner) | Yes; contributions may be unequal, but each owner has equal ownership rights | Yes; each has equal ownership rights |
| **Can Owner Sell or Make a Gift of the Property Without the Other Owner's Consent?** | Yes; any owner can dispose of his/her share without the consent of the other joint owners | Yes; owner can dispose of his/her share without the consent of the other joint owners, but the joint tenancy is severed | No; both must consent |
| **Can Owner transfer his/her share by will?** | Yes | No; the decedent's share automatically passes to the survivor(s) by operation of law | No; survivor automatically becomes sole owner by operation of law |
| **Is Property Reachable By an Individual Owner's Creditors?** | Yes, to the extent of his/her contribution to the property | Yes, to the extent of his/her contribution to the property | Only creditors of both owners can reach the property |

MAKING STRIDES Against Breast Cancer
American Cancer Society

In 2007 Roffman Miller was the 16th largest corporate fundraiser of the Philadelphia walk. Let's make 2008 even bigger; if each of last year's participants brought a friend this year our contribution would grow in strides. It is the power of compounding.

Save the Date: Philadelphia-October 12, 2008

# A Message from Charles Goldman

*Given the recent headlines questioning financial stability at banks and brokerages, we thought it would be prudent to reprint this letter we received from Charles Goldman, Executive Vice President of Schwab Institutional*

Given continuing market volatility and in response to your questions in the wake of troubles facing other securities firms, I would like to share some data on Schwab's financial strength, as well as perspectives from our Chairman, Charles Schwab and our Chief Financial Officer, Joe Martinetto on how the Corporation is managing its financials and exposure to risk.

**Our founder and Chairman, Charles Schwab states in a letter to investors on schwab.com:**

"...Schwab is financially strong and we are committed to our continued financial health. Our capital structure and liquidity are extremely sound - factors that S&P took into account when they recently upgraded our credit ratings to A/A-1. Our internal controls and business standards are designed to keep your assets safe. An important aspect of that is our commitment to risk management. We operate the firm conservatively to avoid the kind of investment risks that have troubled other securities firms recently. Schwab's success ultimately depends on how we serve you and your confidence in us."

**Joe Martinetto our Chief Financial Officer was recently interviewed by CFO Magazine, and comments on Schwab's financial security, risk management and exposure to the subprime market:**

In the interview, Joe discussed the Corporation's focus on the client as a compass for managing financial risk. "We are a very client-focused and client-driven organization. We don't have large trading portfolios. We don't have large proprietary positions. We really operate the firm on behalf of our clients. So our balance sheet is there to provide liquidity and capital necessary for the growth of the company going forward. It's there to ensure the safety of the assets that our clients have entrusted to us. And, finally, it's there to produce revenues off those balances. With those priorities in order, it makes it a lot easier for us to withstand times of crisis."

(*editors note*: we're not sure how long this link will remain active, but the complete CFO magazine article can be found at www.cfo.com/article.cfm/10754978)

**To help you and your clients understand how Schwab is managing its financial health, we publish a brief summary of our financial condition each quarter:**

Our financial condition summary (which can be found at schwab.com) highlights public information from the Charles Schwab Corporation's regulatory filings and communications. Specifically, the company reported total Stockholders' equity of $3.7 billion and a long-term debt to total capital ratio of 19% in our Form 10-K as of December 31, 2007.

Complete financial results and more information about Schwab's business and financial condition can be viewed at www.aboutschwab.com.

I encourage you to read Chuck's letter, the CFO Magazine interview with Joe Martinetto, and our summary of financial condition.

In summary, we're in the business of serving clients, and for us this means taking strong measures to ensure that our clients' assets remain safe and secure. This is what we've done and what we will continue to do.

Sincerely,

Charles Goldman

**Letter from the President (continued from page 1)**

First Quarter 2008 earnings will be announced soon for many of our investments, and those numbers will surely reflect the consumer pessimism many of us felt over the past few months. Unemployment is likely to rise, as it has been at very low levels for several years now. Home inventories continue to rise, albeit at a slower pace, and prices continue to fall, especially in the most aggressive markets. But let's look at some reasons not to be so pessimistic: so far, banks have written off about $200 billion in bad loans. That sounds like a lot, and it does amount to about 1% of U.S. GDP. Keep this in mind, though: U.S. stocks gain or lose $200 billion every hour in a typically volatile trading day. Another way to put things in perspective is to consider the savings and loan crisis of 1986-1995, which most of you likely remember. Losses on bad loans would have to triple from today's levels to come close to the $700 billion in bad loans (in constant dollars) written in the '80s. You might remember that the period from 1986-1995 included market down-turns in '87 and '89 and a recession in 1990, but the era was less severe than the recent 2000-2002 market turndown and nothing like the apocalyptic picture being painted for some investors today. **(continued on page 4)**

## Most People Don't Have Enough Disability Insurance ─ Don't Make That Mistake

Disability insurance protects your ability to earn an income. It provides money to pay your rent, mortgage and all your basic living expenses if you are injured or sick for an extended period. It is called disability Insurance or disability income protection but think of it as income replacement when you are sick or hurt and cannot work. At any age, you are about six times more likely to be disabled for some period of time than to die.

Think your employer's coverage is enough? Think again. You may have whatever sick leave you have coming, and then if an employer offers short-term disability coverage, it generally doesn't last more than 12 weeks. There are employers that offer long-term disability coverage, but if you've never checked the terms of that coverage, you should.

**Basic components of long-term disability coverage:**

- *Monthly benefits:* Long-term disability insurance is generally structured to pay 70 percent of your income up to age 67 or your normal retirement age. See if the policy you're buying offers you the chance to buy more insurance as your income increases in future years.
- *Benefit term:* For each disabling incident, your policy may pay benefits for a certain period – two, five years or until retirement. It's all in how your policy is constructed. Many policies may pay for life if you purchase this benefit and you are disabled prior to age 60.
- *Non-cancellation provisions:* Make sure that once you're approved, the insurer can't cut your coverage unless it decides to stop writing coverage for everyone in your job class. It should also state that the insurer can't raise your rates.
- *Guaranteed renewable:* Like the category above, it means you can't be canceled, except if the insurer stops writing insurance for your job category. The insurer can, however, raise the rates for everyone in the category.
- *Own occupation vs. any occupation:* If you have "own occupation" coverage, it is intended to go into effect if you can't perform the functions of the job you're now in. "Any occupation" coverage pays only if you can't work at any job where you've been reasonably trained to do the tasks
- *Elimination period:* Like a deductible in home, health or car insurance, the elimination period is a big cost determinant in disability coverage. Most policies will kick in after 30 days after you've been declared disabled. But if you specify an elimination period of 60, 90 or 120 days, your premium will be lower. heck based on what elimination period you choose, and funnel the money you'll need in the meantime to your emergency fund.
- *If you're thinking about self-employment:* You'll likely need disability coverage. But the time to buy is while you're still in your current job. Why? Because you won't be able to prove your income once self-employed, so consider obtaining your desired coverage as you can before you leave.

*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.*

## Letter from the President (continued from page 3)

I would like to leave you with some positive thoughts. In January 1980, both the price of gold and the Dow Jones Industrial Average hovered just above 800. A share of General Electric could be had for about a dollar (split adjusted). In January of 1980 we had just put behind us the '70s which included: depressing stock market returns, a stagnant economy, farmers borrowing heavily to buy machinery and land, speculators buying homes and creating artificial demand, and Disco. Sound familiar? Today, gold is just over $900 per ounce, while the DJIA has risen to over 12,000. GE trades in the mid-30s, and Disco has never made a comeback (fortunately). It will take future decades to prove the point, but we are compelled to believe that investing in companies with sound management, strong products and services, and conservative fundamentals is not a fad, but a vital component of creating and preserving wealth over the long term.

Peter Miller

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