Roffman Miller Review

A Quarterly Newsletter from Roffman Miller Associates

Letter from the President

Happy New Year.
Not in recent memory have I looked forward so much to turning the page on my calendar, putting a year behind us and dreaming about the possibilities to be realized in the new year.

As my team and I discussed the topics for this newsletter, a common theme kept coming up – that despite the tough year behind us, we all still had many things to be thankful for. We have been through a difficult period for investors and investment managers – headlines over recent months have told us that both professionals and their clients have experienced breakdowns in their strategies, fraud, and even bankruptcy (for some of the largest institutions, it was *near*-bankruptcy, avoiding it only with the help of the U.S. government).

The good news is that Roffman Miller Associates has survived and so have you, our clients. We have kept our commitment to the non-profit organizations we work with, once again raising money for breast cancer research and Crossing The Finish Line. We initiated a mission of 'Going Green' in the office, eliminating as much wasted paper as we can. And, of course, we continue to perform our fundamental research and stock management.

But the financial markets have left us all with less to work with. Virtually every stock went down in 2008, making each stock purchase we made during the year look premature. In fact, according to Morningstar, mutual funds invested in Real Estate and commodities were also down between 40 and 50% on average last year – these 'alternatives' to stocks usually provide a low correlation to stock market returns, but in the past 12 months there were few places to hide. Even the heralded but often misunderstood hedge fund industry had its share of trouble in 2008. Just a few years ago, pension funds and endowments were racing to place their money in this 'new' asset category, which used leverage (heavy borrowing) to improve investment returns. Now the theme is 'de-leveraging.' According to Hedge Fund Research of Chicago, 693 hedge funds were liquidated (closed down) during the first 9 months of 2008. This is a 70% increase over the prior year closures; some of the closed hedge funds posted losses as high as 100%.

As we enter 2009, some may find it difficult to say anything positive about the markets or the economy – so let me point out a few of the positives. First, there has been a firm commitment displayed by government to employ its fiscal and monetary powers and ensure that the country does not enter a long, destructive economic downturn. Already, hundreds of billions of dollars have been provided in support. Further, in 2009, we should see an economic stimulus plan proposed by the new administration that is unrivaled in U.S. history in terms of size and scope. We believe the stimulus will come in the form of tax cuts, both for individuals and corporations, and scores of capital projects throughout the country.

Second, the price we pay for goods and services could fall this year, allowing us to both buy *and* save more. As oil and commodity prices rose in 2006-2007, manufacturers were forced to pass rising costs along to consumers. Recently, the price of oil has dropped roughly 70% from its peak. Corn, wheat, and copper have all fallen in half. In addition to lower consumer prices, there is a second potential benefit here – if input costs are lower, profit margins of the companies who use these raw materials will grow. (continued on back page)

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Recent Company Visits

Members of the Roffman Miller investment committee regularly meet and communicate with the companies we research. Here are the most recent interactions:

ADP – Mark Frombach met with CEO Gary Butler and CFO Christopher Reidy at their Roseland, NJ headquarters.

A Sampling of U.S. and International Market Returns for 2008

Index	2008 Return	High	Low	3-year average return
Dow Jones Industrial Average	**-33.8**	13058.20	7552.29	-6.4
S&P 500 Index	**-38.5**	1447.16	752.44	-10.2
Utility Average	**-30.4**	550.06	324.57	-2.9
Wilshire 5000	**-38.7**	14613.57	7471.44	-10.1
Wilshire 2500	**-38.5**	3459.14	1773.75	-10.1
Wilshire Large-Cap Growth	**-38.2**	3126.08	1615.68	-9.8
Wilshire Large-Cap Value	**-38.8**	3416.58	1745.80	-10.4
Wilshire Mid-Cap Growth	**-42.0**	4276.52	1854.70	n.a.
Wilshire Mid-Cap Value	**-37.0**	4564.80	2241.75	n.a.
Wilshire Small-Cap Growth	**-41.6**	3730.41	1685.69	-10.7
Wilshire Small-Cap Vaue	**-36.0**	5448.63	2696.99	-11.0
Wilshire REIT	**-42.5**	229.15	77.07	n.a.
Nasdaq 100	**-41.9**	2055.11	1036.51	-9.7
S&P 100 Index	**-37.1**	676.12	367.10	-8.9
S&P MidCap 400	**-37.3**	897.27	417.12	-10.0
S&P SmallCap 600	**-32.0**	402.07	208.21	-8.5
S&P Energy	**-38.3**	17143.81	7714.70	-2.3
Russell 1000	**-39.0**	788.62	402.91	-10.5
Russell 2000	**-34.8**	763.27	385.31	-9.5
Russell 3000	**-38.7**	837.17	427.83	-10.4
Value Line	**-48.7**	432.98	174.86	-18.2
Dow Jones China 88 (China)	**-65.4**	504.37	149.53	19.6
Nikkei Stock Avg (Japan)	**-42.1**	15307.78	7162.90	-18.1
CAC 40 (France)	**-42.7**	5550.36	2881.26	-12.0
DAX (Germany)	**-40.4**	7949.11	4127.41	-3.8
FTSE 250 (U.K.)	**-40.3**	10650.70	5491.46	-10.2
Global Dow (World)	**-45.4**	2774.34	1264.68	-2.9
Global Dow Euro (World)	**-42.5**	1772.65	950.87	-8.0
DJ World Index (World)	**-42.9**	298.79	143.63	-9.8
DJ World ex U.S. (World)	**-46.0**	271.36	123.87	-9.4
MSCI EAFE* (World)	**-45.1**	2253.22	1044.24	-9.7

*source: Wall Street Journal

MAKING STRIDES Against Breast Cancer

American Cancer Society

In 2008, the Roffman Miller team raised over $3,000 at the Philadelphia Making Strides against Breast Cancer walk. Please plan on joining us next October.

Could you be the next Bernie Madoff victim?

The newswires will be feeding off the Madoff scandal for months, and maybe years to come as the complicated tale of this reported 'Ponzi' scheme is unfolded. The list of victims includes individuals and institutions alike, and among the hardest hit seem to be the universities and other non-profit organizations that had entrusted their futures to Madoff Securities.

A recent Wall Street Journal article highlights the steps investors should take to ensure this does not happen to them. Most likely, the article points out, you would use sound judgment and choose an investment manager who is regulated (by the SEC, for example), comes with good referrals, and has been in the industry for a long time. In fact that describes Roffman Miller Associates – but it also applies to Madoff Securities.

The article goes further to describe other red flags – anyone who 'guarantees' performance, or boasts about an amazing track record. But perhaps most important tell of all, the author suggests, is the investment manager who asks for checks to be made out to him or the company he controls. This is the manner by which Madoff was allegedly able to perpetuate the scheme. Basically, the firm took the client money *and* created the client statements.

The article closes with this statement, "If your advisor manages your investments, but the funds are actually *held* at, say, Charles Schwab or Fidelity, it would be almost impossible for him or her to run a Ponzi scheme." We've always discussed the benefit of a split between investment manager and custodian – your investment manager (Roffman Miller Associates) places the trades in your account, but your custodian (Schwab, in most cases) accounts for the securities in your accounts and sends you monthly or quarterly statements. It's a team approach, for the benefit of… you.

On Retirement Plans:

2009 Required Minimum Distributions (RMDs): President Bush recently signed the Worker, Retiree, and Employer Recovery Act of 2008. The bill, as passed by Congress, provides for a virtual moratorium on RMDs from IRAs or Defined Contribution plans for the calendar year 2009. In plain English, you most likely do not have to take a 2009 RMD. The Act does not provide relief if you turned 70 ½ in 2008 and elected to defer your distribution to early 2009. As always, we recommend that you consult your tax advisor.

The 2009 **Estate Tax Exemption** has increased to $3.5million. At present, the tax is scheduled to be repealed entirely in 2010, and then again reinstated at $1million in 2011. During his campaign, candidate Obama was against the full repeal and leaned towards making the $3.5million level permanent. As we go to print the President-elect is discussing this very topic with his economic staff.

Latest News - IRS Updates 2009 Limits

The IRS has released the updated limits for retirement plans for 2009. These new limits will allow business owners the opportunity to save more and increase company tax deductions. The new limits are as follows:

Maximum 401(k) Deferral (under age 50): $16,500 (was $15,500)
Maximum 401(k) Deferral (age 50 and over): $22,000 (was $20,500)

SIMPLE Deferral Limit (under age 50): $11,500 (was $10,500)
SIMPLE Deferral Limit (age 50 and over): $14,000 (was $13,000; catch-up provision is $2,500)

Maximum Addition to Profit Sharing: $49,000 (was $46,000)

Maximum Addition to 401(k) (under age 50): $49,000 (was $46,000)
Maximum Addition to 401(k) (age 50 and over): $54,500 (was $51,000)

IRA contribution limit (traditional and Roth, under age 50): $5,000
IRA contribution limit (age 50 and over): $6,000

Maximum Annual Benefit in a Defined Benefit Plan: $195,000 (was $185,000)
Maximum Compensation to Determine Benefits: $245,000 (was $230,000)

As an example, a 50 year-old who participates in his company's 401(k) plan can now defer $22,000, instead of the 2008 limit of $20,500; and can have a total contribution from all sources of $54,500 (including the $5,500 catch-up contribution), instead of the 2008 limit of $51,000.

*Social Security Taxable Wage Base: $106,800 (was $102,000). Definition of Highly Compensated Employee: $110,000 (was $105,000)

Company News:

Go Green!
Each quarter both Roffman Miller and Charles Schwab provide your account statements to you. Did you know that you can help cut down on paper consumption by opting out of receiving your quarterly Roffman Miller statements? Your account statements can be provided solely by Charles Schwab. And you can cut back on paper even more by having Schwab deliver your account documents electronically. Call or email us to find out how you can Go Green!

Personnel News
Congratulations to **Ryan and Jill Crooks** on the birth of their daughter, Caroline.

Also, congrats to **Tish and Mike Lee** on the birth of their third child, Peter Miller's second granddaughter, Arden.

Letter from the President (continued)…

Third, all the negative sentiment and risk aversion is a positive. 2008 has drastically reshaped investors' appetite for risk. Mutual fund redemptions and cash equivalents are at record levels. In this environment many investors are looking for safety and yield. This dynamic shift has produced an oversupply of fixed income investors. At the same time the Fed monetary policy has resulted in lower interest rates across the board. The ten year Treasury rate has fallen to 2.5%. As a result, cautious investors can achieve safety but finding attractive fixed income yields is very challenging. In fact, today, many dividend yields on common stocks are higher than the corresponding five year bond coupons:

Company	5 Year Bond Yield*	Dividend Yield*
DuPont	3.9%	6.3%
GE	3.97%	7.7%
AT&T	4.8%	5.6%
Glaxo	3.97%	5.1%
Southern Co.	2.47%	4.5%

*as of this writing

I realize that dividends can be cut or eliminated altogether and that bond holders are afforded greater bankruptcy protection. On the flip side, common stock holders have the potential for capital appreciation, dividend increases and, for now, favorable tax treatment. Today equity investors are being paid very well while they wait for a market turnaround. Moreover, during the last 85 years compounding dividends have accounted for half of the stock markets return. If one believes that the previously mentioned companies will survive and once again prosper then it is difficult to avoid investing in the common stock.

We are optimistic about the future. Clearly there are risks, and we will monitor them closely and manage them to the best of our ability. But if experience has shown us anything, it is that once a broad sense of confidence returns, the markets can move quickly as investors realize they are too conservatively positioned and then seize the opportunity to buy good companies at low prices. We will continue to work hard to ensure we are properly positioned to capture this potential upside.

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