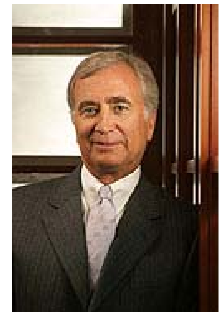
Outlook

A Quarterly Newsletter from Roffman Miller Associates

Dear Clients,

The markets have begun the year with solid returns across the broad indexes: the Dow Jones Industrial Average gained 4.1% over the past three months, while the S&P500 rose 4.9%. The stock market returns of the first quarter of 2010, actually the lowest of the past four quarters, cap off a year of spectacular recovery in stock and bond markets around the world, tracing its origins back to March 2009 when economic stagnation and price deflation seemed like a plausible outcome. But, as we said last quarter, what a difference a year makes.



Beginning in 2008 we began to speak to clients about patterns of recovery typically seen following a bear market. In general (and I am doing our well-researched study of the topic no justice here), the more severe the downturn the more violent the recovery. I am careful with my words here in calling such a recovery 'violent', as it just wouldn't tell the whole story to say that the typical recovery following a severe downturn would be simply 'rapid' or 'substantial'. Violent conjures the notion that there may be an element of surprise in the timing, and that the outcome is unpredictable in nature but for a good chance that somebody will get hurt.

What we believed then, as now, was that a portfolio of carefully selected securities could withstand not only a weakened economy, but also the emotionally-charged sell-off that ensued. We were right about that. We also believed in the recovery story. But what we could not have known, because it became more and more difficult to believe, was how quickly sentiment could turn and recovery begin. Over the first few weeks and months following the March lows, the emotional recovery came with the knowledge that our economy would not come to a grinding stop. Then, towards the end of the year, we actually saw growth in profits at many of the companies in which we invest – a more tangible sign that good companies do not just close the doors when faced with challenges. For many, sales were still below the previous year's, but they had reorganized to the extent that they could once again enjoy a positive bottom line.

Which brings us to today. There exist still plenty of negative data points which must be included in any economic forecast. For example, healthcare has a clear message – higher taxes – that should inhibit future growth. Likewise, the interest expense on the national debt acts as a governer of our domestic economic engine. And finally I'll mention Social Security – it was announced only recently that the Social Security system will run in the red this year for the first time. I know we've discussed this many times, and as far back as I remember there was always going to be a day when Social Security was insolvent. But this announcement comes *six years* before the commonly accepted date, and surely this will have some impact on taxpayers.

It's not all bad news. As investors, we are required to constantly update our outlook based on the data that surrounds us. The Global Manufacturing Purchasing Managers' Index, a measure of global manufacturing activity, recently hit its highest level since May, 2004. The same measure for US activity just rose to a level last seen in July, 2004. Vehicle sales have surged (post 'cash-for-clunkers'). Household employment has recovered for three straight months, and housing affordability is very high by historical standards. We believe that the trend in 'positives' allows us to worry a little less about the negatives in our outlook.

Please note the name change of our montly letter, from *Review* to *Outlook*. A small change, or course, but we believe the new name reflects the forward-looking nature of the message we want to focus on in these pages. The study I mentioned earlier which anticipated a dramatic rally following the market bottom now tells us that the equity markets overall may not in the near term be as exciting as the past year, taking time to digest the wealth of economic data . This is very good news for us, because we believe a disciplined investment approach will fare very well in this cautious to slightly positive environment.

-Peter Miller

10 April 2010
Volume 4, Issue 2

Health Care Reform

Health care reform is now law and many people are asking how it will affect them. The first thing to keep in mind is that reform is gradual. The health care reforms and tax provisions in the new health care reform package play out over time, with some taking effect the beginning of next year but others not until 2014 and beyond. Despite the phased-in rules, however, the package imposes significant new responsibilities and taxes on employers and individuals so it is not too early to start preparing.

Employer responsibility
The final health care package, unlike earlier versions, does not include an employer mandate. However, any employer with more than 50 full-time employees that does not offer health insurance and has at least one full-time employee receiving a premium assistance tax credit or cost-sharing will pay a per-employee penalty. Small employers with less than 50 employees will not be penalized in any case. The penalty rules apply starting in 2014.

Individual responsibility
Unlike employers, individuals do have a mandate under the health care reform package. Beginning in 2014, most individuals will be responsible for maintaining health insurance coverage for themselves and their dependents. If they do not have minimum essential coverage, they will be liable for a penalty.

High-dollar plans
One of the principal revenue raisers to fund health care reform is a new excise tax on high-dollar health insurance plans. The health care reform package imposes an excise tax of 40 percent on insurance companies or plan administrators for any health insurance plan with an annual premium in excess of $10,200 for individuals and $27,500 for families. The excise tax applies to the amount in excess of the $10,200/$27,500 levels. The thresholds are higher for individuals in high-risk occupations and individuals over age 55. This excise tax will not kick in until 2018.

Medicare additional tax and surtax
Changes to the hospital insurance (HI) Medicare tax also fund health care reform. These changes impact higher-income individuals and families. The health care reform package increases the Medicare tax by 0.9 percent for individuals who receive wages in excess of $200,000 (the threshold increases to $250,000 for married couples who file a joint federal income tax return). Additionally, the new law imposes a 3.8 percent surtax (called the Unearned Income Medicare Contribution) on investment income for individuals with adjusted gross incomes above $200,000 ($250,000 for married couples filing jointly). Investment income includes income from interest and dividends.

Flexible spending arrangements
Flexible spending arrangements (FSAs) are a very popular way to save and pay for health care expenses. One of the most attractive features is the ability to use FSA dollars for over-the-counter medications. The health care reform package ends that feature after 2010.
In 2011 and subsequent years, FSA dollars can only be used to pay for prescription medications (with some limited exceptions). In 2013, the health care reform package limits the amount of contributions to health FSAs to $2,500 per year. The $2,500 amount will be indexed for inflation after 2013.

The information above was collected from sources deemed to be reliable. There are obviously *many* more provisions, with over 2000 written pages in the package. We are happy to discuss additional changes and how these changes may affect you.
-Susan Arnold

PLEASE SAVE THE DATE!
The 2010 Making Strides Against Breast Cancer walk will take place on Sunday, October 10. Please mark your calendar and plan to join our team as we seek to break our previous fundraising record. The walk begins at the Art Museum of Philadelphia.

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