

# Outlook

A Quarterly Newsletter from Roffman Miller Associates

There are many adjectives I could use to describe the market's third quarter performance. None of them are pretty, so let's just say it was an extremely tough quarter not just for the United States but for most markets around the world. Lots of uncertainties remain, with the two biggest being European sovereign debt and the growth outlook for the world economies.



**Peter Miller**  
President

Since this newsletter is called Outlook, I thought I'd give you some of my thoughts going forward. First, earnings for the third quarter should not be far off expectations, meaning that earnings are not going to be the problem with most of our companies. What will get more headlines is any negative outlook from management when they report those earnings. As the market should have learned by now, management is reluctant to make a positive forecast. In fact, I don't blame them for being reluctant to make any forecast. The big question here in the U.S. is whether we are slipping back into a recession or simply bumping along in a slow growth recovery. My thinking is, it will be slow growth for a relatively long period and this is not necessarily a bad thing. Corporations are sitting on billions, if not trillions of dollars of cash. They will be able to take advantage of opportunities when they present themselves. Management's job is to recognize opportunities and take their companies in the right direction. Their job is to make their business better and more valuable. That is what we are counting on by owning the companies we hold in our portfolio.

In tough markets, it's difficult not to think in the short term. Don't just look at a company's current price, but ask "how is the company's business doing now" and "what is the outlook for the future?" Always think of the stock portion of your portfolio as your long-term money. Today's interest rates are as low as anyone can remember. The ten year treasury is now yielding less than 2%. That's in spite of the loss of an AAA rating. Many of our companies have dividends paying much better than 2%. So if you think in terms of owning stocks with a better yield than a ten year treasury, you have a long time to realize appreciation on top of that better income.

As investors, we always worry during times like the past five months. For now, it's best to take a deep breath, don't panic, collect your dividends, and try to be patient. Things will get better, I just can't tell you how soon.

-Peter Miller

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## Estate Planning 101 – Ten Bullet Points for the Busy Person

By Peter Klenk, Esq.

1. **Size Doesn't Matter:** No matter how much or how little you may own, an Estate Plan makes sure your family is cared for and your plans are carried out at your death.
2. **Estate Plan Elements:** The basic documents everyone needs are a Will, Power of Attorney and a Medical Power of Attorney. If you have minor children, then a trust, either in the Will or outside the Will, is essential. Other documents may include an IRA Trust (if you are leaving an IRA to a minor child), a Revocable Trust (if avoiding probate is to your advantage), a Life Insurance Trust (if removing your life insurance from your estate is advantageous) and a Temporary Guardianship Appointment (if you have minor children, this gives power to a guardian to act if you are incapacitated).
3. **Asset Review:** Different assets require different plans. An Estate Plan should reflect your assets. Most people want assets to remain within the family. Planning to maintain assets within the family differs if the asset is an IRA, 401k or 403b, (IRA Trusts to avoid income tax problems), real estate, or cash. Location also matters, as real estate in Boca Raton, Florida is taxed very differently from real estate in Burlington County, New Jersey.
4. **A Will saves Money.** Dying without a Will requires an "intestate estate" be opened, which is more costly than if you have a Will. If you have minor children, it is irresponsible not to have a Will naming a guardian and a trustee to care for your child's physical and financial well-being.
5. **Children = Trust:** If you are leaving any assets at all to your children, a Trust is an excellent idea. If it uses the correct techniques, a Trust can protect the assets from divorce, legal entanglements and helps make sure your assets are used for your family...not your children's futures spouses and friends.
6. **Communication is key:** Most people feel uncomfortable talking about their estate plan with their heirs. It is difficult, but sharing information about how your Estate Plan is crafted, whom you put in charge, and why you have divided assets as you did can reduce generations of hurt feelings and perhaps years of litigation.
7. **Practice Makes Perfect:** Review your Estate Plan regularly and after any change to your residence or family make up. Estate law and estate and inheritance tax rules change constantly. The rules of Pennsylvania are different from those in New Jersey, so if you move you may have substantially different laws with which to deal. Setting up a trust protects the assets you leave your children from divorce, but should a child get divorced, it is wise to review your plan to make sure further protections are not warranted.
8. **Don't Give it All to your Spouse!** Leaving all your assets outright to your spouse misses a huge opportunity! Instead, give your spouse the option to *voluntarily* have assets held in trust. Flexibility is key when you are dealing with an unknown future, and if you spouse decides to shelter part or all of the assets, these assets will be safe from creditors, divorce, bankruptcy and other legal problems. Why not be safe?
9. **The Perfect Gift:** People are often told to give money to their children to reduce taxes...but it is better to give money in trust for your children than to give it outright. If drafted correctly, your child can be in charge of the money you give to trust, but the money will not be lost should your child be in a divorce, law suit or bankrupt. Should your child die before you the money stays in the family rather than passing to your child's spouse or friends.
10. **Charity Begins at the IRA:** Why give money at your death through your Will (after tax dollars) when you have an IRA (pre tax dollars)? An Estate Plan should examine where your gifts come from and consider not only ways to reduce Estate and Inheritance Taxes, but also ways to reduce Income and Capital Gains taxes.

Wills, trusts, probate, inheritance and estate taxes are the sole focus of the Attorneys in the Law Offices of Peter L. Klenk. If you need assistance with an estate plan, or have questions about estate planning, please call (215) 790-1095 to schedule a free consultation, or visit them at [www.klenklaw.com](http://www.klenklaw.com)

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## Important Document Checklist

Anyone who has been called upon to help settle an estate knows that proper planning and paperwork will save time and money for your loved ones after your death. In today's complicated times, having the right documents in order *during your life* is also important.

Below is a list of documents that should be filed in a place that is safe and accessible in the event you die or become incapacitated. They should easily fit in an accordion folder or a ring binder:

- Original Will**
- Durable Power of Attorney**
- Durable Healthcare Power of Attorney**
- Living Will**
- Letter of Instruction (with funeral arrangement request, for example)**
- Life Insurance Policies (don't forget to include policies through your employer)**
- Proof of ownership (of house, land, cemetery plots, vehicles, stock certificates, savings bonds, partnerships or corporate agreements, brokerage accounts)**
- Bank Account information and online login information**
- List of Safe Deposit boxes (and consider registering with a spouse or child so they won't have to get a court order to open them)**
- Pension, Annuity, IRA and 401k details of accounts and beneficiaries**
- Loans made to others**
- Debts that you owe**
- A simple list of your monthly obligations (so that your bills get paid)**
- Copy of any Living Trusts**
- Recent tax returns (three years)**
- Marriage License**
- Divorce judgment/Decree (with details of child support, alimony, property settlements and QDRO if applicable)**
- Contact sheet of your professionals (Tax preparer, Financial Advisor, Legal Advisor)**
- Names and addresses of friends and family you would want contacted if you passed**

Don't forget to keep your file up-to-date, and consider storing a copy at a friend or relative's house.

## A Proposed Change in the Tax Treatment of Municipal Bonds

A provision in President Obama's American Jobs Act of 2011 could impact fixed income investors looking to the municipal bond market for federal tax-free investments.

The proposed restriction would limit the municipal interest exemption to 28% for households filing above the \$250,000 (joint filer) \$200,000 (single) thresholds.

That would leave those households in the upper tax brackets paying the difference of their bracket (35% for example) to the 28% limitation (effecting a new 7% tax in this example). As a result, it raises the hurdle by which tax-exempt rates offer relative value versus taxable alternatives.



The reaction from the municipal bond market as a whole has been muted, indicating investors believe this provision has little likelihood of passing. Even if it did, it seems there would be little impact.

Running the numbers myself, the effect seems to be worth about 21bps and 35bps in net yield and, 33bps and 54bps in taxable-equivalent yield for a 3% and 5% bond, respectively. Given that much of the municipal market these days is trading at historically cheap levels relative to taxables (>100% of US Treasuries), the effect does not reduce the relative value enough, excluding credit concerns, to significantly change the market conditions. However, if yields were to get back to a more historical 85-90% of Treasuries level, top tax-bracket investors may start to see more opportunity in taxable alternatives (e.g. high grade corporate bonds).

A key part of the relative value equation is obviously taxable spreads, with tighter spreads helping and wider spreads hurting the relative attractiveness of municipal yields.

Ryan Crooks

## Survey of Retirement Readiness

A recent survey by Putnam Investments and Brightwork Partners found that working Americans are on track to replace only 64% of their current income in retirement.

Including Social Security benefits, the best-prepared quartile of working Americans is on track to replace 100% of their pre-retirement income when they retire. The least prepared quartile is on track to replace only 46% of their income (again, including the impact of Social Security).

Four factors stood out in accounting for this difference:

- A commitment to begin saving (and saving consistently)
- The more you save the better off you are (yes that sounds like a gimme, but when you do the math the power of compounding really tells a powerful story)
- Professional financial advice can raise retirement readiness
- Participation in a workplace savings plan is the single-best predictor of retirement readiness

## Simple Steps for Late Savers

The sooner you start putting aside money for retirement, the more you might have once that highly anticipated day arrives. Saving for college tuition, purchasing a new home, unforeseen medical expenses, or life's other necessities, surprises, or even enjoyments can cause investors to postpone saving. Starting the retirement planning process late in one's life can be daunting, but it is by no means impossible.

**Crunch the Numbers:** The first step to getting back on track is to put together a budget—this will force you to focus on your financial situation and can serve as a roadmap to success. Once you have outlined all of your expenses, simply subtract the total from your net income. The result will give you a clear indication of how much you can potentially save, and also help you identify areas in which you may be spending too much. Utilize on-line banking features to accurately track money flows.

**Cut Any Unnecessary Expenses:** There are essential expenses that cannot be eliminated: food, electricity, etc. However, most people can identify some areas, like entertainment, that are not vital to one's existence and can be cut back on. The more areas that you can trim will lead to more money that can be earmarked for retirement.

**Take Advantage of Catch-up Contributions:** Catch-up contribution limits allow investors age 50 and above to increase their contribution to retirement plans. For example, they can make an extra contribution of \$5,500 to their 401(k) in 2011, equating to a maximum contribution of \$22,000. IRA catch-ups are \$1,000 in 2011, leading to a maximum contribution of \$6,000.

Source: Investment News, Morningstar



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