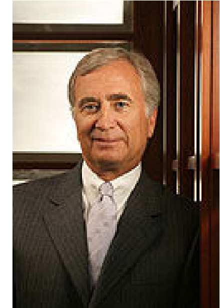
Outlook

A Quarterly Newsletter from Roffman Miller Associates

10 January 2012

I want to wish everyone a healthy and prosperous New Year. It's hard to believe that it has been twenty-one years since we started managing money. The world has certainly changed, yet our investment principals are the same today as they were then. We have seen many new and different investment strategies over the last two decades.



Peter Miller
President

A long time ago, I remember a financial services company right here on the 5th floor that was very busy in the 1990s. It turns out that it was a day-trading firm. Most of you will remember the day-trading frenzy of the late 1990s, where people could put up some of their own money and rent a terminal at one of these trading firms and hope like heck that the tech stocks would keep heading higher at least until they closed out their trades at the end of the day. In fact, that was the goal – don't own anything overnight, because you really don't want your trades to become 'investments.'

I don't know if you remember what happened to those firms when the tech bubble finally burst, but one day here on the 5th floor there were a bunch of people milling around the hallway waiting to get through those doors and get to 'work', but the doors never opened again.

Most new investment styles sound great, but few have been successful over the long term. Patience, discipline, and diversification are still key elements. No one can predict all the challenges we will face in the future. Sticking to a long term plan that stays on track is still the best investment strategy looking forward.

On a personal note, I turned 65 in December – an age that used to mean retirement. However today very few still retire at this age. Full social security benefits do not start until age 66. You can take a lower amount at 65, of course, but if you still work you will be penalized. Medicare does start at 65, but it is not free and not easy to understand. Having just started on Medicare myself, I've learned more about how it works than I ever wanted to know. If you are approaching Medicare eligibility and in need of help with the process, please feel free to contact us.

A big reason for not retiring at 65 these days is that interest rates are so low that there is almost no return on your money. Safety has never yielded so little. Of course the best reason for not retiring is that you like what you do, enjoy the people you work with and care about the clients you serve. Also, I have been told that if you keep working you will not age as fast.

So the bottom line is that I am not retiring, and you will have to put up with my ramblings for a while longer.

-Peter Miller

PS.. one way of staying young is to keep the same photo year after year. After eight years, I really should get a new one.

Review, Outlook

By Mark Frombach

How many readers of this newsletter would be surprised to find out that the stock market has risen not only three years in a row, but in 8 of the past 9 years? Yes, I know, it certainly doesn't feel that way sometimes. But I checked it out, and it is true.

One reason it's so hard to believe is that while the market has risen so has the number of stomach-churning, up and down days in the stock market commonly referred to as "volatility. For any of you who I have spoken to about this recently, I may have made comments like, "isn't this great?" or, "this is the way it's supposed to feel." No, I wasn't being pithy or sardonic, I was really being genuine.

Despite the fact that I, too, have to put up with/absorb/endure the market swings as they apply to my own personal finances, I've got a greater cause in thinking 'institutionally' about the assets under management at Roffman Miller. And it is here that I must tell you, the rumors circulating about the death of investing, or even buy-and-hold investing, are patently untrue.

It was the legendary Benjamin Graham, mentor to Warren Buffett, who said that your investment gains are not primarily influenced by intelligence or special knowledge, but by your temperament. Now, as someone who has spent quite a number of years in pursuit of intelligence or special knowledge when it comes to investing, even I have to yield to Mr. Graham's statement. After all, can't it be universally stated that it's not the knowledge that you have, it's what you do with it?

In times of uncertainty, markets tend to overreact and Roffman Miller may be inclined to invest more. This is often the opposite of how we feel as individuals, where we might rather curl up into a ball than invest one more dollar into a falling stock market. The other side of that is taking profits when times are good. It might be in our nature as humans to just hop on the bandwagon when the market is on a roll, but in reality those should be times when our eyes are wide open to risks on the horizon and we are at our most cautious. In order to pull off the most basic of investment guidelines, 'buy low, sell high', you need the right temperament at these inflection points if you wish for investing to be a successful endeavor.

And so, I will tell you that the principles of investing are not dead. But they do not reveal themselves in the minute-by-minute world of programmed trading and CNBC. In 2009, we did not invest for 2009 – we invested for 2010, 2011, and beyond. We will do the same in 2012. There is still value to be realized in seeking opportunity (finding businesses at good prices with growth opportunities, talented management, strong balance sheets) and given time, sticking to these principles will be rewarded.

2011

The Dow Jones Industrial Average ended the year 2011 up 5.5%. Including dividends, the total return of the index was 8.38%. Dividends, which we have talked about for quite some time, made a noticeable difference this year.

Many people have asked, "how did the DJIA outperform the S&P 500 (up 2.11%) by such a wide margin this year?" Most of that can be attributed to the methodology for how the DJIA is calculated. We'll address that in a little bit, but while we're on the subject of performance let's break down the returns for 2011.

Of the ten Dow Jones Global Industry groups, five were up for the year and five were down. Only Utilities enjoyed a double-digit gain, while only Financials, again, endured a double-digit decline. Health care stocks had a positive year that surprised many, yet the industrials struggled since peaking early in 2011 after which a confluence of events (the Arab uprisings, Japanese earthquake and nuclear disaster, and even JP Morgan's announcement that they would take gold as collateral in some transactions) started to deflate the global recovery story and led to a negative year for that group.

Review, Outlook continued

Other difficult moments for investors this year included the S&P downgrade of U.S. Government debt, months of wrangling over European sovereign debt, and the persistent but ultimately ineffectual Occupy Wall Street crowd.

The U.S. turned in a solid performance in comparison to the rest of the developed world. In Japan, the Nikkei lost over 18%. In Europe, the U.K. was off 5.6%, Germany down 15.6%, and France lower by 17%.

2011 Investment Scoreboard
A sampling of benchmark returns

Dow Jones Industrial Average	8.38%
Russell 2000	-4.18%
Standard and Poors 500	2.11%
Mutual Funds	
Lipper Growth Fund Index	-3.02%
Lipper Balanced Fund Index	0.74%
Lipper Growth and Inc Fund Index	-1.82%
Lipper Multi-Cap Value Index	-4.12%
Lipper International Fund Index	-14.48%

There were a number of bright spots for investors this year, too. The death of Osama Bin Laden could be perceived as lowering the overall threat to global peace, although no one really knows whether any successor would be better or worse. This is the case, too, for North Korea and Libya where both countries' long-standing dictators died, but it remains uncertain how much or how little their interactions with the rest of the world will change.

The top stocks in the Dow Jones Industrial Average were all familiar names:

McDonald's	+30.71%
IBM	+25.29%
Pfizer	+23.59%
Home Depot	+19.91%
Kraft Foods	+18.57%

The bottom five stocks, however, were also quite familiar:

Cisco Systems	-10.63%
JPMorgan	-21.62%
Hewlett-Packard	-38.83%
Alcoa	-43.79%
Bank of America	-58.32%

And what of the Dow Jones index methodology mentioned earlier? Well, doing some quick math, if you had invested an equal amount, say $1,000 in each of the ten stocks listed above and held them for all of 2011, you would have lost money. Evidently the really bad stocks did worse than the really good stocks could make up for. But there are 30 stocks in the Dow.. what if you invested $1,000 in each of the thirty and held *those* positions for the year? Since the DJIA reportedly gained 8.38%, you might think that this would be your gain as well. Wrong. Investing equal amounts in each stock, your total return would be about 4%. The stocks, on average, gained just about 1%, and the dividends just about made up the other 3%.

How is that the case? Without going into too much detail, each index has its own rules for calculating its value over time. The S&P 500 index is influenced more by companies with larger market values (Exxon, Apple, Microsoft), while the DJIA is influenced more by companies with higher stock prices. So while IBM is a $180 stock, it has significantly greater influence than Bank of America, a $6 stock.

We're not saying that any particular method is right or wrong, but investors should know what influences the benchmark indexes they so commonly refer to. Of more importance is understanding the dynamics of your own portfolio, and ensuring that your appetite for risk and return are still supported by your asset allocation.

In short, the past year was one of many highs and lows, ending higher but not dramatically so.

Review, Outlook continued..

2012

In 2012, the world still awaits the outcome of what has come to be called 'the European Debt Crisis.' Essentially the issue is that debt is high, growth is low, and the condition may not be temporary in many countries. This year will be a continuation of the meetings and summits of 2011, as leaders of those countries try to come up with solutions they can all live with while at the same time giving the markets a chance to right themselves without further government intervention. Quite a balancing act if you ask me.

Emerging market economies should be interesting to watch again this year as they are usually tied to the success of the developed or larger developing nations. Many were hurt by falling commodity prices in 2011, and also by the prospect of a declining global GDP. If fear persists in Europe and spreads to the US, then the pain in emerging markets will continue to be felt. Hopefully this will not be the case, and improved confidence on the continent will lead to a better outlook everywhere.

In the U.S., we also face an unsustainable long-run budget deficit and persistent high unemployment. The unemployment situation seems to be trending in a positive direction, albeit slowly. The deficit, and the accompanying debt, can be overcome by growth in the economy, higher taxes, lower spending, or inflation (or some combination). Fed policy needs to remain contingent on the economy, and by that we mean they will have to remain 'accommodative' with low rates until the economy shows more evidence of stable growth.

Despite the challenges, the U.S. should be a good place to invest again in 2012. Revenues at S&P 500 companies grew by 10% last year, and while they are only projected to grow half as much in 2012 that is still a healthy top-line growth rate. Dividends for those stocks are projected to grow by 11% - there is the proof, if you needed it, that dividend paying stocks are healthy for your portfolio. A presidential election will distract us some, but the issues facing our economy are too vital to be overlooked and should be front and center in the debates.

We definitely live in interesting times. Thank you for the privilege to work with you in 2011, I look forward to many more years to come

Consider Raising your Retirement Contribution

In 2012, contribution limits for both traditional and Roth IRAs will remain the same as in 2011: $5,000 per year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is $6,000. These limits, unchanged from 2011, can be split between a Traditional and a Roth IRA.

In 2012 you can now contribute $17,000 annually from your pay into your 401(k) plan. The increase, designed to allow for inflation, is $500 higher than last year's level. For those 50 and over, you are allowed to contribute an additional $5,500, for a total of $22,500.

The limitation for defined contribution plans is now $50,000, up from $49,000.

These annual contribution limits are imposed by the Federal Government.

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