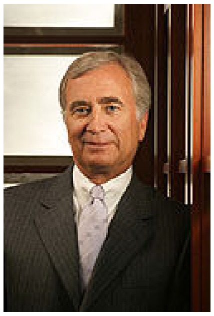
# Outlook

A Quarterly Newsletter from Roffman Miller Associates

10 April 2012

**Good Market = Short Letter**

I've always felt that a good market does not need a lot of explaining. In fact, the first quarter was so good that I should probably end this letter right here but first I need to point out one very important thought. When things are working well with our investments, I always remind myself that I am not that smart and now is not the time to forget about the disciplines that got us here. One such discipline is patience, and here we apply the old Dutch proverb that says, "An ounce of patience is worth a pound of brains."



**Peter Miller**
**President**

The S&P 500 gained 12.6% in the first quarter, its best start to a year in fourteen years. Banks and technology stocks led the way higher.

Since 1920, the market has seen only eleven years when the market was up ten percent or more in the first quarter of the year. On average, those years ended up gaining about 16% for the entire year.

Of course we all want to know what the market will do going forward. Again, I am not that smart but I can tell you that things look okay and that is a good thing. If I said the outlook "looks great", then we should all probably be cautious. Remember, our job is not to predict the market, but to invest in good companies for the long term. From our perspective, there are a number of profitable, well capitalized, growing companies that are positioned to take advantage of the world's demand for their products and services. It is then the job of the people running the businesses that we own to make our investment in those companies successful.

I could spend a lot of time on all the negatives that could affect the market in the near term. Most of us could make a very long list, but I promised to keep this letter short. So instead, I'll just remind you that the secret to our success has been to look beyond the choppy results of the past few years and rely on our tried and proven process. Of course, we'll need to be patient, too.

In the meantime, enjoy the recent market gains because we don't get many first quarters like the one that just ended.

-Peter Miller

## Internet and Computer Security

Like you, we at Roffman Miller are concerned with internet safety. Making sure your confidential information is secure is a priority. We have policies in place to make sure that we are doing everything we can to protect our servers and workstations and the information stored on them. To that end, we have recently started using ShareFile, a service that allows us to access, send and receive encrypted documents on secure servers. Some of you may have already gotten documents from us using this service. The process is fairly painless: when you receive an email from us with a secure document attached, you simply click on the link provided and enter your name and email address as requested. You can also send secure documents to anyone at Roffman Miller by either going to our website's **Contact Us** page or by requesting a link be sent to you.

Paulette Greenwell

In general there are several simple but very important steps that can be taken at home to protect your computers and the information they hold:

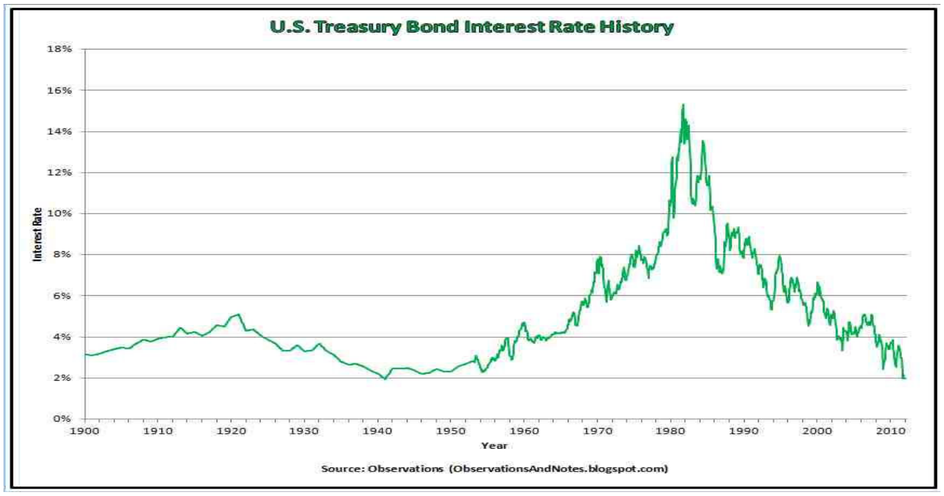
- Change your passwords often, every 60 to 90 days. As much as this is a nuisance, it is much harder for someone to hack into an account/computer if the password is being changed on a regular basis.
- Never give out personal information via email (Unless sent through an encryption service or secure site)
- Be extremely cautious when being asked to click on any links sent to you in email, even if it is sent from someone you know.
- Phishing is a way of attempting to acquire information such as usernames, passwords, and credit card details by masquerading as a trustworthy entity, for example; a bank, a credit card company, the Better Business Bureau or even the SEC. These institutions **will not** send emails asking for account information or social security numbers. They already have this information. If you are unsure and think the email might be valid, double check by contacting your bank by phone.
- If you get an email asking for money from someone you do not know or saying you have inherited money or asking for help getting money into the country-**delete the email**. Actually even if you get an email from someone you do know asking for money you should be cautious. Hackers steal email address and pretend to be a friend/family member in need of cash with no one but you to help them. No matter what the horrible story is that they are telling you, these predators use the sympathy card and try to pull at your heart strings-**delete the email**.
- Keep computer antivirus software up to date. Hundreds of new viruses, if not thousands, come out weekly and even daily. Antivirus software should be updated continuously to catch all of the new viruses that are out there. If your software is behind, you are opening the door to trouble.

If you have any questions about Roffman Miller's internet/computer safety policies or the steps above please let us know.

## Power of Attorney – Important Notice

Did you know that if you have a Power of Attorney that was prepared by an attorney, it is *not* valid at Schwab without further paperwork? Most people assume that they can simply present their legal paperwork to Schwab and automatically be granted those powers. This is not the case, and there are subsequent steps in the process to assigning POA to your brokerage account. Call us to find out what you need to do to have everything in order before it's too late.

## Fixed Income Corner




I lead this article with a chart of the 10 year U.S. Treasury since 1900 because a picture really is worth a thousand words. It also allows me to present a small challenge to anyone reading this to find our most recent "spike" in interest rates. This is obviously a somewhat sarcastic challenge in that the recent 40 basis point move we saw from early to mid-March barely registers on the chart. Now this probably leaves you in one of two camps: the one that thinks it's just the beginning of a march back towards the highs due to excessive printing of dollars, the debasing of the currency and subsequent inflationary pressures, or the one that believes there are enough risks in the world whether they be economic, fiscal, political or demographic, to name a few, to keep a low interest rate environment around for quite a while.

"Low" and "a while" are pretty subjective terms but let me first say that I would put myself in the latter camp before defining what those terms mean to me. There are several key reasons I am in the low-rate camp. First, I think the European fiscal crisis will be with us for a while and will extend the flight to quality these events have created. Second, I think higher interest rates will be self-correcting much like oil prices as long as we are experiencing mediocre growth. Third, for inflation to really take root price inflation needs to be supported by wage inflation and I just don't see that happening anytime soon, creating another self-correcting situation. Fourth, the deleveraging cycle that was kicked off by the bursting of the housing bubble has several, if not many, years to go to get consumer balance sheets back in line with the considerable pre-bubble debt-to-income levels, let alone levels that would be considered sensible. Fifth, the Federal Reserve has publicly committed itself to the low rate environment and has given the markets no reason to believe up until this point that they are not going to follow through on this commitment. No one wants to "fight the Fed" because they have a very good record and a balance sheet that trumps us all. And finally, I would say 'History,' and that's where we can revisit the chart above. I think if we just use a layman's view we could fairly say that the period from about 1965 to 1981 was what seems to be an anomaly and the following 20, if not 30, appear to be a correction of that anomaly. Outside of that we see a bond that has spent most of its time at or below 4%. I would also note that the last time the 10yr hit 2% (in the early 40's), it took almost 20 years for it to return to 4%. So, it seems reasonable to me to think that we will continue to be below the 4% mark for the next 3 to 5 years with 5%+ being the high-end for what could be the next 7 years to a decade.

Any type of forecast or prediction this far out is fraught with difficulties and unknowns that can change the scenario drastically which is why I'm not trying to expressly predict where rates will be but instead to form a framework that allows us to identify value in the market today. We can't pass on 3% and 4% opportunities to instead sit in a money market yielding zero while we wait for 6% or 7% bonds to return. A key conclusion to the above discussion is that a *passive laddering strategy* will benefit in either the quickly or slowly rising rate scenarios by having money invested at higher rates if rates stay low or go lower (yes, it can happen) or by generating enough liquidity through the maturing bonds to take advantage of a higher rates as they begin to reappear. This is managing your cash needs and interest rate risk, all at once, and is truly a strategy for all seasons.

Ryan Crooks

## Anticipating 2013 Tax Changes

Investors have had a tough time during the past decade, but we cannot attribute these tough times to the tax code. Dividends, which were taxable as ordinary income during the late 1980s and 1990s, have been taxed at or below 15% since 2003, providing they meet certain criteria. The same goes for long-term capital gains, which were taxed at rates of 28% or higher as recently as the late 1990s.

But all of that is expected to change in 2013. Barring congressional action, dividends will again be taxable at ordinary income tax rates starting next year, and the highest income tax rate will pop up from 35.0% currently to 39.6% in 2013. Long-term capital gains, meanwhile, will be taxable at 20% for most investors and 10% for those in the 15% tax bracket or lower. A new Medicare surtax will also kick in that will levy a tax on high-income households' investment income, and the estate tax will ensnare many more estates if the exemption exclusion drops to $1million, as it is scheduled to do next year.

Under these new circumstances, what should a tax-savvy investor do? A good mantra for investors is to focus on what you can control and keep current on tax-law changes. There aren't any substantial changes to the tax code for 2012 so this means preparing in 2012 for some of the impending and potential changes for 2013. Here are some of the things we are likely to discuss and implement with you this year:

- Consider municipal bonds, even if you're not in the highest tax bracket – if tax rates go up, the benefit of these tax-free securities becomes magnified
- Moving high dividend securities into retirement accounts to defer income taxes
- Maintain a buy-and-hold mentality, but if funds need to be raised then look to do it while capital gains rates are still relatively low.
- Take another look at the Roth conversion, as rising tax rates make this look option look less attractive

- Lori Hartman

### We've grown our business through referrals and we appreciate it

For over twenty years Roffman Miller has grown through referrals, providing a level of service that has made our clients feel comfortable passing on our name to friends, family members, and coworkers. We truly appreciate this – in fact, a personal referral is the greatest compliment we can receive.

If you have someone in mind that would benefit from our experience in retirement income planning and investment management, please call our office and we can discuss how to handle the situation. We make referrals from clients our top priority. Ideally, we would like to arrange for a personal introduction by you and then schedule a private consultation later, but sometimes it works just as well for you to let the other person know that we will be calling to introduce our firm. Above all, we want you—and the other person—to be comfortable with the process.

Roffman Miller ASSOCIATES, INC. *Wealth Management*

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