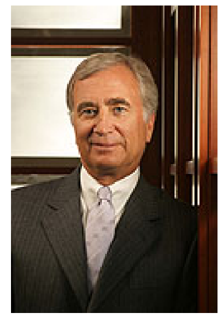
Outlook

A Quarterly Newsletter from Roffman Miller Associates

05 January 2013

I want to wish everyone a healthy, safe, happy and successful new year.

In recognition of the new year, I'd like to make a few resolutions:



Peter Miller

I am not going to write about the fiscal cliff; the short-term decisions made are not going to solve the long-term financial problems facing this country.

I am not going to write about our leaders in Washington; they're not leading but campaigning full-time.

I am not going to write about children being killed in their classrooms; no words can measure the horror and sadness.

I'm not going to write about the performance of the markets in 2012; good results do not need explaining.

I do want to talk about the future. Not that I know what will happen but that I still believe the best place to invest is in great companies with strong management. As I have said for years, there are always reasons not to invest and if there ever comes a time when there are no worries then that will probably be the time to sell. Success comes from a long-term plan; short-term problems that you cannot control are not a reason to change your plan.

It was 22 years ago that we started Roffman Miller. Time certainly does go by quickly. I am grateful for the success we have had, but most importantly I feel the company's best years are ahead of us. What I am most proud of is the team we have built. Honest, hard-working and dedicated people who believe in the value of always putting our clients first. If I am starting to sound like this is a farewell letter then let me reassure you I am not retiring. However, I am making changes to ensure the future of our company.

Most of you know Bob Hofmann and Paulette Greenwell. They are about the same age as I was when we opened our doors. I have been sharing the responsibility of running the company with them for the last five years. Together with Mark Frombach, our Chief Investment Officer, they deserve the credit for our success the past few years. To ensure the long-term future of Roffman Miller I will become Chairman, Bob will now be President, and Paulette will be Vice President. My role will be to make sure that the values and disciplines that have worked so well over the last 22 years will endure. Bob, Paulette, and Mark will have the job of leading us forward for the next 20 to 30 years. I hope to be involved for a very long time, but if something should happen we have the right people in charge.

Thank you for putting your trust in us. Without you the company would not exist. I look forward to working with all of you for many years.

Sincerely,
Peter Miller
Chairman and Founder

Gold Bugs, Revisited

I'm often asked to voice my opinion on gold as an investment. Gold has certainly garnered a lot of attention over the last decade. In fact gold has been going up for about twelve straight years. Last summer when a Merrill Lynch analyst predicted that gold would hit $2,000 an ounce by the end of the year, the questions surrounding gold only intensified. This is very reminiscent to the many questions we received about internet stocks in 1999. Internet stocks were in a classic bubble and for many investors greed took over. Investors chased performance and ignored fundamentals. People got caught up in the euphoria. We all know how this story ended. In fact all bubbles end the same way. The problem with bubbles is predicting when they will end. Gold did reach an all-time high in September of 2011 of $1,918 an ounce. Today gold trades around $1,672 an ounce.

I'm not sure if the gold run is over but I certainly think there is more downside risk to gold than upside opportunity. Even the world's most prominent gold bug, Jim Rogers, is cautious on gold. Jim isn't buying gold now and he's even hedging his gold position. Jim told CNBC "Gold is having a correction – it's been correcting for 15-16 months now – which is normal in my view, and it's possible that (the) correction is going to continue for a while longer."

Warren Buffett has been a longtime proponent of owning good companies as opposed to owning gold. We think more like Warren Buffett than Jim Rogers. Warren told CNBC "When we took over Berkshire, it was selling at $15 a share and gold was selling at $20 an ounce. Gold is now $1,600 and Berkshire is $120,000." Warren added "so a decent productive asset will kill an unproductive asset." Actually Berkshire is trading at about $135,000 today. Gold does not pay income and could have storage costs. Individual stocks can pay dividends and also offer great long-term growth potential.

This certainly is not the first gold bubble. In 1973 President Gerald Ford signed a bill which allowed people to own gold once more. Owning gold was outlawed during the Great Depression by FDR. At the time the hoarding of gold was thought to contribute to the demise of our economy. Since we were on a gold standard, FDR signed Order 6102 which required everyone to turn in their gold to the Federal Reserve. Owning gold was legalized again just in time for the rapid inflation of the 1970's. As a result a gold bubble ensued. Gold went from about $100 an ounce to over $800 an ounce in about seven years. When gold peaked in 1980 it proceeded to enter into a twenty year bear market. Gold eventually did reach $800 an ounce again but it took about twenty-eight years.

I'm not saying that there is no place for gold in one's portfolio. Gold has been a great investment over the last twelve years. In the near term I don't see any catalyst as to why that should change. However, nothing lasts forever; gold investors simply need to be diligent.

Bob Hofmann, President

And the Prize Goes to…

I want to tell you a funny story. It's about a famous investment fund called Long Term Capital Management.

LTCM, as it was referred to, was started by former Vice Chairman and head of bond trading at Salomon Brothers, John Meriwether, in 1993. He recruited two future Nobel prize recipients, Myron Scholes and Robert Merton, to assist him. Through their collective contacts they were able to raise $1billion from investors by early 1994. The plan was to use complex mathematical trading strategies, based on the research of Scholes and Merton, which involved trading government bonds from the U.S., Japan, and European Countries.

LTCM chose to operate as a hedge fund to avoid the financial regulation imposed on more traditional investment vehicles, like mutual funds. The fund was initially very successful; by 1998, it had grown to almost $5billion (the average size of the largest 50 hedge funds at the time was about $1.4billion). But, it had borrowed over $120billion with which to make bets on financial instruments to help boost the fund's return.

As you might anticipate or already know, all that borrowing, or 'leverage' in investment parlance, led to a rapid decline in value when the bets they placed simply did not work out in the required timeframe. Skipping some of the details, in September of 1998 – some ten years before doing it again – the heads of the largest U.S. banks and investment firms met in the Manhattan conference room of the Federal Reserve Bank of New York to organize a bailout because Wall Street feared that LTCM's failure would cause a chain reaction resulting in catastrophic losses throughout the financial system.

Merton and Scholes would split the 1997 Nobel Prize in Economic Sciences. LTCM, post bailout, limped along and would be liquidated by early 2000. John Meriwether would go on to start a new firm, based on the same principles, which would eventually suffer great losses during the global financial crisis and close its doors in 2009.

The purpose of my retelling this story is not to scare investors, but instead to encourage all of you to seek to understand investing. Benjamin Graham, who I have mentioned before, published *The Intelligent Investor* in 1949. In it, he states "An investment operation is one which, through analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative." Graham was right. That doesn't mean speculative ventures won't make money; his point was that you should understand the downside could be a permanent loss of your capital. Additionally, even 'good' investments don't necessarily provide the returns you want over short periods of time, sometimes suffering short-term losses as market prices disconnect from the real value of a business. And Graham, like his disciple Warren Buffett, knew that you're better off if you understand what you're investing in.

2012 was a good year for stock investors. The Dow Jones Industrial Average gained 10.24%, and the S&P500 rose 16.00%. The much maligned hedge funds, on average, gained only 5.5% according to industry tracker HFR. On the other hand, safety did not pay either as the Barclay's U.S. Treasury Bond Index was up only 1.99% and 30-month CDs ended the year paying 0.49%. In fact, if you had bought Forever stamps from the US Post office on December 31, 2011 and held them for the year, you would have outperformed those last two (the one cent rise in First Class postage would translate to a 2.2% increase in the value of your stamps).

There will always be reward for smart investors. Innovation is profitable and as long as we don't regulate away profit, then investing in good ideas will itself be a good idea for years to come. You don't need a Nobel Laureate to create a new investment algorithm. Think about the strong trends in technology, the rise of mobile devices and "cloud" computing; those trends are not going to slow down anytime soon. The global demand for food is driving more innovation in farm fields to fight insects and drought. I can't begin to describe how much progress is being made in medical and energy technologies. And airplanes are being made out of materials lighter and stronger than metal. Our firm believes that the more knowledgeable you are, the more you remember the ill-fated LTCM's of the past, the better the plan we can create together and the better we can help to meet your financial goals.

Earlier, I said that I wanted to tell you a funny story. Here's the funny part: The Nobel Foundation was created in 1900 at the bequest of Swedish industrialist and inventor of dynamite, Alfred Nobel, whose endowment today is worth nearly $500million. Prizes are awarded annually to outstanding contributors in the fields of physics, chemistry, medicine, peace, and literature. Since 1968, a Prize in Economics has also been awarded and funded by an endowment from the Swedish central bank (it is not an official Nobel prize, but is awarded at the same ceremony). Winners of all six categories receive a gold medal and a cash prize.

In 2012, the Nobel Foundation lowered the cash value of the prize by 20% (from about $1.4million to about $1.1million) citing poor investment returns at the endowment and uncertain economic times. The Foundation, however, wishes to preserve the prize and does not want to make further cuts. The fix? They are going to put more of their investments into hedge funds! I wonder which prize winner they consulted on that one.

Mark Frombach, Chief Investment Officer

2012 TAX SEASON NEWS FROM CHARLES SCHWAB

Schwab has compiled a list of "things you should know" for the upcoming tax season. We broke it down for quick reference:

- Schwab revised your 1099-B for easier tax preparation
- Schwab will mail your 1099 in late January or early February 2013
- Schwab has been reporting cost basis to the IRS for mutual funds, ETFs and Dividend Reinvestment Plans (DRIPs) acquired on or after January 1, 2012
- Cost Basis reporting for Subchapter S Corporations is required by the IRS for covered transactions on your 1099-B

1099-B

Schwab reports gain/loss information to our clients and the IRS for covered investments under the new legislation. Below you will see some of the details to be included on your 1099-B form:

- Sale proceeds
- Adjusted cost basis. This includes your original purchase price plus commissions and fees, any adjustments due to wash sales, amortization accretion and corporate actions
- Short or long-term gain/loss
- Disallowed losses for wash sales

If any security was transferred into your Charles Schwab account by another custodian, your cost basis should be updated prior to any sale we place in your account. We will work with our clients and former custodians to obtain this information so it can be reported correctly to the IRS. **However, if cost basis can not be obtained, the IRS will accept an estimate.**

We want tax season to go smoothly for all of our clients. We are available for your questions and will help with anything we can to obtain this goal. Please feel free to contact us at our office.

For detailed 2012 Tax Season Information, please log onto your account at www.schwab.com, click on the Specialty tab and select Taxes.

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