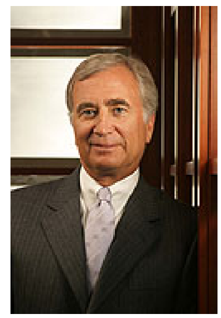
Outlook

A Quarterly Newsletter from Roffman Miller Associates

Chairman's Letter



Peter Miller

A stock market correction is when the market declines 10% or less in a relatively short period of time. It is usually caused by some kind of event. So what we have seen in the last week looks like a textbook example of a market correction. These corrections happen so often that successful long-term investors don't remember any of them. In fact after a correction the market usually regains its losses in three months or less. It's the bear markets that we all remember and the fear that a correction could be the start of a new bear market. The truth is no one really knows the difference until it happens.

The bond market is a real issue right now. Fed Chairman Ben Bernanke's comments that the Federal Reserve might start reducing its pace of bond purchases this fall has sent the yield on the 10-year treasuries from 1.65% in May to over 2.60%. What was surprising was how fast this happened. The fact is at some point the Fed's got to stop purchasing government bonds (I call it "printing money") and thus get back to a real economy with no Fed intervention. I have felt for a long time that interest rates are too low and hurt, not help, the middle class. People who have saved deserve a better return on their money. Retirees deserve some security that safe money does not yield zero. There used to be an old expression "the miracle of compounding." When was the last time you heard that?

As I said in my April letter there are going to be corrections. I don't think the 1% rise in interest rates is going to hurt the economy. Our success will come not from reacting to short-term events but from the long-term success of the individual companies we invest our money in. My confidence comes from the people who go to work every day for these companies and work hard at improving and growing their businesses. The best ones always put their shareholders first.

As always I invite you to make an appointment so that we can sit down and review your goals and discuss any concerns.

Sincerely,
Peter Miller
Chairman and Founder

Fixed Income Corner

You may have heard me or others at the firm refer to bond laddering as a *plan for all seasons*. Well, the last month has been like an early season snow storm that freaks everyone out and sends them to Home Depot for snow blowers in October! However, much like an early season storm, the precipitous move in the 10yr Treasury yield over the past weeks does not guarantee that we are in for a snowy winter in the bond market and certainly does not mean we should expect to see snow in Florida (or higher rates on short-term bonds in this case), especially in July, and that is what I am afraid some of the recent market headlines would have investors believe.

Not all bonds are created equal and different bonds will be affected differently by rising rates, so making broad statements like "you are going to get killed in bonds" is a gross disservice to investors. For those who reached for yield and bought long-term bonds (>20yrs) in desperation for income from their investments, that may very well be the case. But for those with an average maturity around 5 years in a well balanced bond portfolio I think such statements are misleading at the least.

Keep in mind that barring a default, we know exactly what we are going to get for our bonds and that's par (face value) at maturity. Price fluctuations are to be expected when purchasing any investment, but price declines due to interest rate changes in the market are temporary in the context of a passive bond ladder and it does not change our reasonable expectation of par at maturity. Just as importantly, we keep collecting interest during the holding period. This is exactly what makes a laddering strategy so functional and why we can gladly look forward to higher rates: as the short-end of our ladder matures we will likely have the ability to reinvest the proceeds at higher rates. That would be a welcomed event for income-oriented investors long waiting for some reasonable returns on their hard earned savings without having to take excessive risk on the long end of the rate curve or the considerably more volatile returns of the stock market.

In closing, I would just say that I know it feels good to have that snow blower in the garage for an emergency, even if you hope you never really need it. But in the case of the current storm surrounding Fed policy and interest rates, it might just be a good idea to stay inside, make some hot cocoa, and let the bond ladders do the heavy lifting.

Ryan Crooks

Headline:

The White House budget for 2014 includes a proposal that will limit contributions to IRAs and other tax-deferred retirement savings accounts for 'wealthy' Americans. The proposal does not specify an exact amount, but instead gives a formula for what level of wealth would disqualify the individual. As interest rates rise, this formula would disqualify individuals with less and less wealth.

There are many obvious ramifications of this proposal, including the sheer administrative complexity. But one additional outcome could be the end of many corporate retirement plans if executives and owners are no longer able to contribute. Please stay informed.

www.annualcreditreport.com

This site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

AnnualCreditReport.com is the official site to help consumers obtain their free credit report.

Please be aware of how you arrive at this site. To ensure that you are visiting the legitimate site, type https://www.annualcreditreport.com directly into the address bar on your browser. You will never receive an email directly from the Annual Credit Report Request Service.

It's a Market of Stocks, not just a Stock Market

The major U.S. stock market indices fell in June, but finished the second quarter above where they ended Q1 of 2013. Defensive sectors such as Telecom and Utilities outshined the rest in June. Consumer Discretionary stocks were the only other positive group among the ten S&P sectors for the month.

For 2013 year-to-date, all ten sectors have had positive returns. Financials (+35.37) lead the way, followed by Consumer Discretionary (+31.42%). Sector returns were widely dispersed as Technology (+7.74%) and Utilities (+6.62%) were the bottom two sectors and well below the +13.82% total return of the S&P 500.

One of my jobs here at Roffman Miller is to go out and meet with the executives who run the companies that we invest in. The reason we do this is that companies are more than just their stock quote, financial statements, and a glossy annual report – the companies we invest in make things, file patents, spend billions each year on factories and equipment, sell goods overseas, and more. The point is, there is always a lot going on at these companies, and we like to see and hear that the people at the top of the organization have a plan, the talent, and temperament to turn all of that activity into a financial reward for shareholders.

With that in mind, I thought I'd share with you some information I gathered at a recent meeting with DuPont at their headquarters in Wilmington, Delaware. As many of you may already know, DuPont (the full name is E. I. du Pont Nemours and Company – let's just stick with DuPont for now) was founded in 1802 and was a major producer of gunpowder in the 19^{th} century. Moving forward over the next 200 years, DuPont was instrumental in the automotive industry, the American military successes, and the space race with discoveries like Nylon, Neoprene, Teflon, and others.

DuPont survived and thrived over that long stretch with a focus on new discoveries that would have commercial application and profits to follow. Today, DuPont is organized around three strategic priorities: Agriculture and Nutrition, Bio-based Industrials, and Advanced Materials. What was clear from my meeting is that DuPont is still dedicated to science and research, with a clear focus on one of the largest looming challenges so far: how to feed the growing population.

DuPont estimates that there will be one billion additional middle class consumers worldwide by the year 2020, increasing to 2.5 billion more by 2030. By 2050 we will need to double the annual global food output. DuPont's work on seed traits and crop protection will help to yield more food from an ever shrinking supply of arable land. But the challenges of feeding the population go beyond just the sheer volume of food: while 1 in 6 people worldwide go to sleep hungry each night, 20% of the population is obese. Here DuPont's work in enzymes and food ingredients help to improve the nutritional value and the taste of food.

CEO Ellen Kullman has been in her current position for three years and believes that innovation is a key to success. For each of the past five years, DuPont has been awarded more patents than any other chemical company. Showing that there can be a return on R&D, 29% of sales last year came from products introduced over just the last four years. Kullman also believes that future growth will be found in the developing corners of the globe. Presently 32% of sales (about $12billion) come from developing markets. To support that, nearly 9,000 local employees were hired during Kullman's tenure in places like Vietnam, Russia, and India.

While many of DuPont's oldest businesses like textiles and commodity chemicals have been sold over the past decade to make room for more profitable '21^{st} century' products, overall revenue is still very much linked to the success of the general economy. In Housing and Auto, advanced materials like Tyvek (for wrapping houses) and Surlyn (a durable resin used, for example, in the covers of golf balls) are big contributors. Dig a little deeper and you find that DuPont is the world's largest producer of Titanium Dioxide, and it is worth digging into as just that one product represents *ten percent* of DuPont's annual sales. TiO_2 is used mainly as a white pigment in paint but it has many other uses as well. This is another economically sensitive product, but the company believes that they have a significant cost advantage over all other manufacturers and as demand grows it will be an increasingly more profitable cash generator. Products that are 'cash generators' are typically only marginally profitable, but provide cash through volume to hire scientists, do more research and development, create new products, and drive the growth of the future.

Overall the management team seemed to have a good understanding of the markets that they participated in, the challenges and opportunities ahead, the cost of pursuing the opportunities, and the potential profits. They offered a cautious economic outlook, and I appreciated the conservative nature of that approach.

Mark Frombach

What You Need to Know about Health Savings Accounts

Health Savings Accounts (HSAs) are growing in popularity, and more companies are offering them to their employees. Many people, however, are confused about what these plans are and when it is appropriate to take advantage of them.

What Is an HSA? Health Savings Accounts were created by a provision in the Medicare Prescription Drug Improvement and Modernization Act of 2003 and signed into law in December of that year. The purpose of creating the accounts was to provide a way for Americans to prepare for future medical costs and lower their health insurance premiums by switching to higher-deductible medical plans. Employers can establish plans for employees, and HSAs are also offered by banks, credit unions, insurance companies, and other approved companies. In 2013, an individual can contribute up to $3,250 to an HSA, while families can contribute $6,450. People over 55 can also make a catch-up contribution of $1,000.

What Type of Tax benefits Does an HSA Offer? Personal contributions offer participants an “above-the -line” deduction, which allows them to reduce their taxable income by the amount they contribute to their HSA. Participants aren't required to itemize their deductions to realize this benefit. If your employer offers a “salary reduction” plan (also known as a “Section 125 plan” or “cafeteria plan”), you can make contributions to your HSA on a pre-tax basis. However, the “above-the-line” deduction is off limits for those who elect to contribute on a pre-tax basis.

If you are self employed, you cannot contribute to an HSA on a pre-tax basis. However, you can contribute with after-tax dollars and take the above-the-line deduction.

Who’s Eligible? In order to be eligible to contribute to an HSA you have to be covered by a high-deductible health insurance plan. "High-deductible" is defined as a deductible (where you pay the first dollars for medical service out of your own pocket) of $1,250 or higher for singles and $2,500 or higher for families. In order to be eligible to contribute to an HSA, you cannot be 65 years of age or older. People 65 and older can maintain an HSA established prior to age 65, but they can no longer make contributions into it. An HSA cannot be established for those eligible to be claimed as a dependent on another person's tax return. Also, if you are covered by another health insurance plan (such as a spouse's), you are not eligible for an HSA.

If you die and have money in an HSA, your spouse can use the account as if it were his or her own. If you are not married, the account can pass to a beneficiary but will no longer be considered an HSA and will be taxable to the beneficiary. If your estate is the beneficiary, the value of the HSA will be included on your final income tax return.

Making Withdrawals from Your HSA: Withdrawals made from your HSA are tax-free if used for qualified medical expenses. The same things you can deduct on Schedule A are considered medical expenses for HSAs. For more information on exactly what qualifies, see IRS Publication 502: Medical and Dental Expenses.

If you don't need to withdraw the funds from your HSA, you can let your contributions grow over time tax-free (similar to IRA accounts). HSA contributions grow on a tax-deferred basis. Moreover, unlike flexible spending accounts you may have used in the past, HSA contributions are not “use it or lose it.”

The Fake Tweet Mini-Crash

On April 23rd, 2013, the Associated Press’ (AP) Twitter account was hacked, sending a message that the president was injured in an explosion at the White House. This fake tweet resulted in a rapid decline of roughly 1% in the financial markets, fueling speculation that high-frequency trading was the main culprit. Although the market recovered quickly following the hoax, it reminded investors of the flash crash from May 2010 or Knight Capital Group’s computer glitch in 2012. In the end, this mini-crash had little to no effect on the long-term investor. While a mini-crash like this raises questions about repeat occurrences in the future, making it hard for investors to overlook, ignoring short-term price fluctuations and focusing on the value of investments may be the best policy for long-term investors.

Roffman Miller ASSOCIATES, INC. Wealth Management

Contact Information
Roffman Miller Associates, Inc.
1835 Market Street
Suite 500
Philadelphia, PA 19103

Tel: 215-981-1030 Toll-free: 800-995-1030 fax: 215-981-0146
www.roffmanmiller.com info@roffmanmiller.com