Outlook

A Quarterly Newsletter from Roffman Miller Associates

I heard a commercial on the radio the other day that said, "It's not *if* there's going to be another stock market crash, but *when!*" In Florida, they have a similar commercial that says, "It's not if there's going to be another hurricane, but when." Of course the commercials are selling two different things but the message is the same: fear. If you live in fear of a market crash then the one advertisement is trying to convince you to buy a high commission, low return insurance product. It may sound like a good way to protect yourself, but it has not been the answer in the past. The reason is that the market has always come back from major downturns and has always gone on to new highs. Each time the market has faced a steep decline, you would have been better to stay the course and stay invested through the bear market. That's long-term investing!

A bear market is a decline of 20% or more from a high. Since 1942 we have had 13 bear markets. That's an average of one every six years over the last 73 years, but the time between bear markets has been as short as one year and as long as thirteen. If you could predict when a bear market was coming you might be able to outperform. That is, if you're not too frightened to get back in before the market recovers. In my experience the majority of people who change their holdings because they see a big downturn coming almost always lose out. The biggest mistake you can make is trying to time or predict the market; don't ever let fear or greed dictate your investment decisions.

My favorite saying when it comes to investing is "it's not a stock market, but a market of stocks." At Roffman Miller we have always invested in individual companies. Great companies with strong leadership. Diversified among many different industries. If you own a great company then why would you sell just because its stock isn't doing well? We sell because the company's fundamentals have changed. Over the years I've heard the same story many times: a relative held stocks for many years and then left behind a considerable inheritance. I never met the person who said his father or mother traded stocks their whole life and then left a considerable sum!

We all know that bull markets don't last forever. So how do we prepare for the next bear? The answer is asset allocation. Don't try and guess where the market is going but more importantly think about *when* you will need the money. If you will need to spend the money in the next few years then this money must be protected from the volatility of the market. Money that you're holding for the long term can be invested in stocks because you will have time to recover.

I know I'm just preaching to the choir. Most of you understand what I've been saying because that's how we have been investing together over the past 25 years. But I want you to know that we at Roffman Miller understand that we have had a six-year bull market and at some time the bear will be back. Just remember the worst thing is to overreact.

If I sound negative, believe me I'm not. While stocks are not cheap, they are not outrageously overpriced either. In the long run we will make out just fine. As always I welcome your thoughts and comments.

Sincerely, Peter Miller
Chairman and Founder

Protecting your Personal Information

We take the safeguarding of your personal information very seriously at Roffman Miller. We maintain administrative, technical and physical safeguards reasonably designed to ensure the security and confidentiality of our client's personal information.

How we are protecting you assets:

- We do not share your personal information with anyone, without permission from you or as dictated by law, as stated in our Privacy Policy
- We use passwords, firewalls and encryption technology to protect personal information on our computer systems. This includes encryption of information sensitive emails
- We limit access to certain client information and software applications to necessary personnel
- We maintain rules about taking client information out of the office and the disposal of client information
- We have polices in place that state the above and more, and we provide training to our employees on privacy and security of the client's personal information

We expect our third party providers to adhere to a certain level of confidentiality. Any provider that may have access to our client's information must sign a confidently agreement. Schwab is our most important partner. Below is some general information about how websites are protected, as Schwab's is, and more specifically how Schwab is protecting your personal information.

In general, how do you determine if the website you are on is secure and authentic?

- First the URL will be **https** as opposed to **http**
- Second there will be **lock icon** on the page; depending on what browser you are working with it will appear in different locations. You should always click on the icon, don't assume because it is there the site is secure. By clicking the icon you will able see the details of the site's security certificates.

If you see these items when you are logging into a site, it should be secure. Just note that sometimes the https and the lock do not appear until you try to **log in** to your personal account information as all the pages on the site may not need to be secure.

Schwab is not only using the highest level security certificates, they use advanced technology including 128-bit Secure Sockets Layer (SSL3) encryption. You can find out more about this and Schwab's security practices by searching *Schwab Safe* on their website.

If for some reason you want an even higher level of security, Schwab offers a free token, pictured here, that you can use to log into your Schwab account. Besides a user name and password, you would need the new number generated by your assigned token each time you wanted to log into your account. All of us at Roffman Miller use them to log into the Schwab Institutional site.

And don't forget, neither Schwab nor any financial company - banks, insurance, credit card - will ask for any personal financial information by email or text.

Paulette Greenwell
Vice President

Texas Makes the Best Chips, Part II

"Texas Makes the Best Chips, Part I" was an article I wrote last year about Texas Instruments (maker of semiconductor chips). I called it 'Part I' knowing at the time that I would ultimately follow up with a column about PepsiCo, the parent company of both Pepsi-Cola and Frito-Lay.

Although PepsiCo celebrates 50 years in business this year, its roots go much further back. Pepsi was first formulated by a North Carolina drugstore owner in 1893. The Frito Company emerged in 1932 out of a home kitchen in Austin, Texas. And H.W. Lay Co. was coincidentally the 1932 brainchild of Herman Lay, who at one time traveled throughout the southern United States selling potato chips out of his car. When the companies merged in 1965, total combined revenue was $510 million. Today that figure is over $66 billion – obviously a lot has happened in 50 years.

Throughout the past half-century, PepsiCo has had to adapt to the shifting consumer landscape here in the U.S., build new capabilities, and invest in and expand into new geographies.

In 1997 PepsiCo spun off its restaurant business as Yum! Brands, which still operates the Taco Bell, KFC, and Pizza Hut brand fast food chains. As a part of the separation deal these chains have lifetime contracts to distribute only PepsiCo beverages.

Today the company is a global juggernaut, with international sales representing 49% of total revenue for 2014. Beverages make up 47% of sales worldwide. As the growth in carbonated beverages has slowed over the past two decades, faster growing categories like water, juices, and sports drinks have picked up the slack. The $1 billion beverage brands at PepsiCo include Gatorade, Tropicana, and Aquafina in addition to Pepsi, diet Pepsi, Mountain Dew, and Starbucks ready-to-drink beverages (through a parnership with Starbucks). Pepsi, with a 24% market share, has a slight lead over Coke in beverage distribution in the U.S., but trails in the international markets.

Since 2012, food has represented more than half of global sales, accounting for 53% of the total in 2014. PepsiCo competes mainly in the salty snack aisle, and pretty much owns the market with a 36.4% share of the U.S. retail channel. In this category, Pepsi's $1 billion dollar brands are long established and quite familiar: Fritos, Tostitos, Doritos, Cheetos, Lays, and Ruffles. In August 2001 the company purchased the Quaker Oats company, a subsidiary which also accounts for $1 billion in annual revenue (the prize in that acquisition was Gatorade, owned by Quaker at the time. Gatorade is now PepsiCo's 4th largest global brand in terms of sales, sells over $1 billion by itself, and represents 75% of the U.S. sports drink market).

As I've mentioned many times before, all large companies need to constantly evaluate their cost structure and look for efficiencies in administration, manufacturing, and distribution. They also have to keep innovation at a high level or they get surpassed by smaller, faster enterprises that can respond quicker to changing consumer needs and technologies. CEO Indra Nooyi is only the 5th chief executive to lead the firm. Over the past nine years, she has overseen a change from the once widely decentralized business to one of 'global leverage and local execution.' That sounds like business school jargon, but when you need to purchase commodities like sugar, salt, and wheat in quantities like Pepsi does, you need to think about your global cost structure. However, when you are making products in Asia or Africa to suit the local flavors and wallets, you must think and act locally. In terms of results, Pepsi delivered $1 billion in cost savings last year and believes it can do the same each year from 2015-2019. Cutting costs like that is extremely important in a time period where commodity costs are volatile, energy and transportation costs were going higher, foreign economies were weak, and currency fluctuations were working against them. At the same time they delivered organic revenue growth of 4%.

At Roffman Miller we look for companies that can endure, grow, and reward shareholders. Pepsi is one of only 77 publicly traded companies to remain on the Fortune 500 list since 1965. Last year the company increased the annual dividend for the 42nd consecutive year, and that, combined with share buybacks, totaled $8.7 billion returned to shareholders, a 36% increase over 2013. There is a lot of pressure from activist investors these days to split PepsiCo back into two companies: a high-growth food company and a slower-growth, cash producing beverage company. Nooyi and her team feel confident that the synergies lost by such a transaction – in distribution, pricing, advertising, etc. – far outweigh any benefit shareholders might get by choosing one half over the other. We agree with management and continue to like Pepsi for growth and income.

Mark Frombach, Chief Investment Officer

Medtronic–Covidien Merger Tax Consequences

In late January Medtronic completed its acquisition of Covidien. The new company, now headquartered in Dublin, Ireland, believes it is uniquely positioned to alleviate pain, restore health, and extend life for more patients around the world. The transaction involved forming a new company, now called Medtronic PLC, which effectively bought the shares of both Medtronic and Covidien.

For those who held Medtronic shares before the merger, the transaction creates a taxable capital gain for 2015, as if you sold all your Medtronic shares and then bought them all back.

We are providing this information because it is unusual when shareholders of the 'acquiring' firm in this type of transaction end up with a tax liability. We will take this into account as the year goes on, but if you feel you need to do some tax planning please consult your tax professional. And of course, if you have any questions about the merger, please call us.

Master Limited Partnerships (MLPs) in IRAs

Publicly traded limited partnerships, or 'master limited partnerships,' receive special tax treatment under federal law. Because IRAs are also tax-advantaged, the IRS puts a limit on certain types of MLP income you may earn within an IRA (or other retirement plan) before triggering an additional tax. The responsibility for tax reporting within the IRA falls upon your IRA custodian: Charles Schwab, for example, would file the necessary paperwork for your IRA if you held an MLP within your Schwab IRA. The process does require some action on your part, and here is what you need to know:

- At the beginning of each year, Schwab will mail you a letter with instructions on what to do with your Schedule K-1 statement(s), which are the tax reporting documents produced by your master limited partnership(s)
- A Schedule K-1 will be mailed *directly to you* from each master limited partnership you own
- You should forward the K-1 directly to Schwab per Schwab's written instructions, or send them to Roffman Miller and we will forward them to Schwab on your behalf
- Schwab will file a form 990-T on your behalf. Any taxes owed will be paid out of the IRA, and you will receive a copy of the 990-T in the mail.

It may seem unusual that taxes would be owed on investments held within an IRA. In fact, it is our goal that we avoid this tax so while it is not impossible, it is unlikely that your IRA will owe the IRS. If you have further questions about the tax documents you receive, we advise you consult your tax professional.

DuPont Shareholder Activism

Shareholders of DuPont may be receiving phone calls from company representatives encouraging you to vote along with company management for the board of directors. This outreach is the result of activist investor Trian's attempt to win board seats and influence the direction of DuPont. Management has attempted to deal with Trian, which owns about 2.5% of DuPont's outstanding stock, and had implemented several suggestions for cost-cutting and divestiture. Regardless Trian is trying to win 4 board seats at the upcoming shareholder meeting with the hopes of breaking the company up further. We favor management's opinion and we will attend the annual meeting.

- Lori Hartman, Investment Manager

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