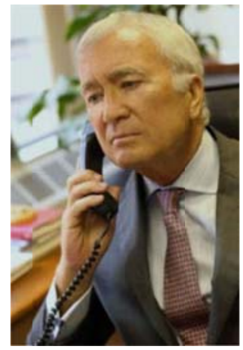
Outlook

A Quarterly Newsletter from Roffman Miller Associates

In January 2013 I wrote to you about the future of Roffman Miller. The following two paragraphs are taken from that letter:



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 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.

When we first started Roffman Miller my father (who was instrumental in helping me establish the company) asked if I was starting a practice or a business. A practice usually lasts one generation; a business can last much longer. I always wanted to create a business that would last past the founders. That has been my goal for the last 25 years. So it is now time to make the next major step in our transition. I am going to go from the majority owner to a minority owner. Bob, Paulette, and Mark will become the new majority. I will remain as Chairman and retain a smaller ownership. I plan to step back even further from the day-to-day operations but will still be very much involved in the investment process. My role as Chairman will be to continue ensuring the values and disciplines that have worked so well over the past 25 years will be the cornerstone that we build upon in the future.

Someone asked me if I was doing this too soon. My response was, "better than too late." I plan to be involved for the next 10 years but I also want to experience what the so-called golden years are all about. I thank all of you for your trust and confidence during the past 25 years and I am certain that over the next 25 years we will grow to be an even stronger company.

I welcome your thoughts and comments and will always be available to take your calls and emails. I may, however, be calling you back from Florida.

Sincerely,
Peter Miller
Chairman and Founder

8 July 2015

Fixed Income Corner

For an asset class that is supposed to be simpler, less risky and more dependable than most, nothing seems to be more confusing than bond returns. Bonds are a very important asset class and can make up a significant portion of an investment portfolio, so some understanding of what and why you own the bonds that you do and what they are offering you both at the time of purchase and throughout the holding period is important. Unfortunately, some statements and online resources don't even give investors an adequate description of the bond basics such as coupon, maturity, or whether or not a bond is callable (which is often the primary component of the bond in question and the value that it is offering, particularly for premium priced bonds). A good example might be a bond that has a 7% coupon that matures in 10 years (2025) but has a call date next year in 2016. Often I hear from clients spooked from the most recent "you're going to get killed in bonds" media piece and have to remind them that first, it is 2015 and 2025 is in fact only 10 years away. Second, I will point out that the issuer's call option next year along with a well above market coupon of 7% gives a very high probability that the 10 year bond that has them spooked so much is in reality a 1 year bond that should really have them wishing for the same higher rates they started off being concerned about. Quite a whirlwind of emotions for a supposedly boring asset class. The biggest problem I think with most reporting of bond positions is the difficulty in knowing what your yield-to-maturity (YTM) and yield-to-call (YTC) is from the purchase date, which are your annualized returns on that bond as long as you hold it to maturity or until it is *called-away* from you. Below I've defined these and other basic bond terms and characteristics that every investor should be familiar with:

- **Coupon:** Percentage of face-value that is paid by the bond issuer per year
- **Maturity:** The date at which the face value (par) is returned to the investor. *Bonds that pay down principle throughout the life of the bond, like mortgage –backed securities, do not return principle at maturity
- **Yield-to-Maturity:** Annualized return on the bond if held to maturity. *Fine print: Assumes cash-flows are reinvested at the same rate
- **Current Yield:** Misleading much like a stock's current yield in that it expresses the cash flow yield as a percentage of *current market value* when in reality, the cash flow yield verse your *cost* is your real cash flow yield
- **Call Date:** The date(s) at which the issuer has the option to call, or pay-off, the bond *before* maturity
- **Yield-to-Call :** Annualized return on the bond if called-away by the issuer at the call date
- **Yield-to-Worst:** For a bond with multiple call dates, the return in the lowest possible scenario
- **Make-Whole Call**: Increasing in popularity and usage, this type of call is very different than the standard call and is an investor friendly covenant that requires issuers to redeem the bond issue *and* all its future cash flows at a market premium
- **Put:** An investor option that allows for investors to put, or sell back, their bond to the company before maturity (usually after the death of the bond holder)
- **Accrued Interest:** The interest between coupon payments that has been earned but not paid out to the seller of a bond. Unlike stocks that use an ex-dividend date to determine who gets paid the next distribution from the security, bond holders are due interest for every day they owned the security. Buyers pay the seller the accrued interest and are made whole by receiving the entire next coupon payment. Accrued interest is factored into the return metrics above

If investors were able to see their YTM easily on their statements each month, I think there would be a lot more clarity and a lot less concern with their bond holdings but instead they are usually forced to locate the original confirm and find the figures mixed in with all the other detail and fine print. Yield-to-maturity and yield-to-call are the single most important return figures for buy-and-hold investors. As always, I am happy to discuss any questions or concerns you may have with your bond portfolios.

Ryan Crooks, Investment Manager

Boeing – A Stock for the Next 20 Years

As I look back at what dominated the headlines for the first half of 2015, the continuing economic crisis in Greece stands out to me. The debt crisis there began as fallout from the 2008 US bank crisis and the 'great recession.' At the time, Greece was already suffering from recurring recessions, structural weaknesses in the economy, and high debt-to-GDP. What happened next can be best described in this quote by Warren Buffett: "Only when the tide goes out do you discover who's been swimming naked." Essentially the country had built a mountain of debt and other obligations they could barely afford to keep up with. When the global recession hit, the country's debt-fueled economy was revealed to the rest of the world.

Since 2010, Greece has had access to funds through the European Central Bank and the International Monetary Fund, but recent events have led to those funds being cut off. There are some who believe that the hard line taken by the new leadership in Greece is moving them closer to wide sovereign default, while others believe that the austerity measures imposed by the European Commission are so draconian that Greece is being forced further into a recession that they can't possibly grow out of. I don't know which one of these is the truth. But what I do see is the potential for more sovereign failures, outside of Greece, as many economies trend towards slower growth and higher spending on entitlement programs.

When growth is hard to come by, sometimes you have to look at large demographic trends and determine if there are ways to capitalize on them. The Boeing Company is the world's largest aerospace company, a leading manufacturer of commercial plans, defense, space, and security systems. Because of the long-term nature of designing and building aircraft, and the expected growth of the global middle class, Peter Miller calls Boeing a 'stock for the next 20 years.'

In 2014 Boeing had total sales of $90.8 billion, a five percent increase over the previous year. Free cash flow, which is available for dividends and stock repurchases, was a record $6.6 billion. Based on these results, the Boeing board of directors increased the dividend by 25% in December of 2014, bought back $1 billion of stock in the fourth quarter (that's about 1% of the outstanding shares), and authorized a $12 billion stock buyback plan that should be executed over the next 2-3 years. Clearly the board believes that the company is in a strong financial position. The company ended the last fiscal year with $13.1 billion in cash and marketable securities vs. $9.1 billion of debt.

The Commercial Airplane segment accounts for 2/3 of the company's overall sales. They are the leading global commercial aircraft manufacturer, producing a family of jetliners designed to meet a variety of passenger and cargo needs. Most recently the company introduced the 777X, a wide-body jet which features a new composite wing, new engines, and folding wing-tips all designed to deliver greater efficiency and significant fuel savings. The 777X was launched on the heels of the smaller 787 Dreamliner, which uses much of the same fuel-efficient technologies and is so similar technologically to the 777X that they share a common 'type rating' for pilots, allowing qualified pilots to operate both aircraft. This segment also offers aviation services support, spare parts, training, and technical advice.

Here is where the Boeing story becomes more interesting for the long-term. Boeing expects its 162,000 employees to build and deliver 750 commercial aircraft in 2015. To put that into some context, there are currently about 20,000 passenger airplanes flying today. Based on population growth estimates and, more importantly, the growth in the global middle class, Boeing expects passenger air travel to increase at a rate of 4.9% annually for the next 20 years. That translates to a need for about 40,000 aircraft in 2035, effectively doubling the current fleet. During that time, many planes will be retired due to age or fuel inefficiency, and Boeing predicts that we'll need to produce more than 35,000 new aircraft over the coming two decades, averaging over 1,750 per year, and translating to over $5 trillion in sales. Boeing's customers must place orders well in advance of their needs, and tend to place large orders to take advantage of volume discounts. This has created a $500 billion backlog of work, something that most companies would be envious of.

Boeing is entering its 100th year in business, and hopes to continue its long-term success story under the leadership of newly elected CEO Dennis Muilenburg, a 30-year veteran of the company who seems hand-picked by the popular outgoing CEO James McNerney. The company delivered 184 aircraft in the first three months of 2015 and bought back $2.5 billion of stock. We look forward to the Q2 numbers coming out soon, but this really is a story for the next 20 years.

Mark Frombach, Chief Investment Officer

Kraft – Heinz Merger

Kraft and Heinz announced a merger in late March. As a result of that merger Kraft shareholders will receive a special one-time dividend of $16.50/share to be paid on July 31. The ex-dividend date is July 23. On that date the stock price of KraftHeinz (new stock symbol: KHC) will adjust down by the amount of the dividend. The reason for the adjustment is that the amount paid out in dividends no longer belongs to the company and this is reflected by a reduction in the company's market value. Instead, it belongs to the individual shareholders. For those purchasing shares after the ex-dividend date, they no longer have a claim to the dividend, so the exchange adjusts the price downward to reflect this fact. Investors that are unfamiliar with this process can get alarmed at seeing the stock price drop so much in one day. If you own Kraft be aware and enjoy the one-time special cash dividend.

DuPont Spinoff of Chemours Company

On July 1st DuPont completed the separation of its Performance Chemicals segment through a spin-off of The Chemours Company. DuPont stockholders will receive one share of common stock of Chemours (symbol 'CC') for every five shares of DuPont stock they held on June 23, 2015. A portion of your original cost to purchase DuPont will be used to calculate the cost of the new shares of Chemours that you receive. We will automatically calculate that for you so that you don't need to do anything. This separation of companies will allow DuPont to focus on Agriculture & Nutrition, Advanced Materials and Bio-based Industrials. The Chemours Company will focus on the chemicals business including one of their flagship products, Teflon. We will evaluate each company accordingly to make an informed investment decision.

- Susan Arnold, Investment Manager

Wire Transfer Approvals Simplified

You can now electronically approve third-party domestic wire transfer requests, including IRA distributions, online and from your mobile device. It's as easy as contacting Roffman Miller to initiate the process; Schwab will verify the request by phone, and then you will receive an email and mobile alert. Use the Schwab Mobile App or logon to the Schwab Alliance website to approve the wire. Call us for the Schwab Mobile Setup Guide, or visit http://content.schwab.com/learningcenter for more details.

- Lori Hartman, Investment Manager

U.S. Tax News

The estimated 119 million taxpayers for the tax year 2015 (i.e., returns that will be filed in 2016) reporting adjusted gross income up to $75,000 will collectively pay zero federal income tax, despite paying $310 billion of payroll taxes. An estimated 26 million taxpayers in this group will receive cash back due to refundable credits such as the Earned Income Tax Credit, offsetting the payroll tax. (Source: Joint Committee on Taxation and BTN Research)

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