Outlook

A Quarterly Newsletter from Roffman Miller Associates

Lessons to be Learned

If you didn't know that the market had a 10% correction in the first quarter, that's not a bad thing. If you *did* know about the correction but didn't react, that's a good thing. Now if you only check your portfolio at the end of each quarter there would be no trace of a correction which is a great thing. For the rest of us it was hard not to get nervous by the middle of February, especially for those who are retired or near retirement. It's easy for me to tell you not to worry, and that a 10% correction is to be expected, but most of us can remember how devastating a major downturn can be. The good news is how quickly the market recovered which is usually, but not always, the case. So are there any lessons to be learned from the first quarter of 2016?

There's an old saying that the market is driven by fear and greed. For an individual investor they are the two biggest reasons that people make major mistakes. I have examples of fear and greed from last quarter below.

The first lesson to be learned is that we need to understand that financial newspapers and financial news networks have much different goals than we do as investors. A newspaper's number one job is to sell more newspapers and a cable financial network's number one job is to get higher ratings. Fear is a great way to sell papers or get higher ratings. It didn't take much of a correction before we started to see doom and gloom headlines - the media outlets always have a list of so-called experts who are happy to go on the air and be quoted with outrageously negative predictions. One such expert predicted in January that this was the start of an 80% market crash. By the bottom of the correction there were many headlines explaining why this was the end of the bull market. The lesson is simple: financial news is only short-term information and not sound investment advice, so don't get caught up in the negative headlines that are put out there to get higher ratings or to sell more newspapers.

My second lesson is a great example of greed. The longtime president of the Sequoia Fund was forced to resign in late March after one of the fund's holdings, Valeant Pharmaceuticals, lost more than 50% of its market value in one day (bringing the stock's loss to 90% over the past six months). The $5.6 billion Sequoia Fund was hit hard by its heavy exposure to Valeant which at one point accounted for more than 30% of the fund's assets. The 71 year old leader, an MBA graduate from Harvard business school, had been the portfolio manager since 1980. The fund was so successful that it had been closed to new investors for years. Apparently, though, this successful leader had forgotten, or had never learned until now, that in the search for investment returns no single investment is worth taking undue risk.

Never putting too much money in one company or too much in one industry has always been a key discipline at Roffman Miller. It's not that we are smarter than everyone else, but we've always understood that protecting our clients' assets is just as important as solid results. I am most proud of the team at Roffman Miller and I know they are always putting clients first by doing what is best. I always enjoy your thoughts and comments and welcome the opportunity to communicate with you.

Sincerely,
Peter Miller
Chairman and Founder

13 April 2016

Negative Interest Rates

Historically low interest rates have perplexed savers for more years than we care to admit. Earning a low rate on your savings is one thing, but the idea of *paying* someone to hold your money has taken the cake as the most confusing and disappointing thing going on in the global fixed income markets.

Negative Interest Rate Policy (NIRP) has now surpassed Zero Interest Rate Policy (ZIRP) as the new extreme in monetary policy. NIRP is a Central Bank policy of discouraging large banking institutions from holding excessive capital reserves essentially by charging the banks to do so. In theory, this will incentivize banks to make more productive use of that capital – in other words, the policy is geared to force banks to lend money instead of hoarding it. Of course, central bank policy affects the capital markets in this case by allowing other short-term securities to only have to offer negligible yields and still be attractive compared to negative reserve rates. Negative rates have spread from government bonds to some euro denominated bonds of Nestle, Royal Dutch Shell, Siemens, and others.

Although NIRP has gotten more attention since Japan's surprise decision to implement it in January, the Swiss National Bank was the first to do so way back in the early 1970s to stem the flow of funds into the economy from highly inflationary countries. At the time, the inflow of funds was appreciating the Swiss currency to uncompetitive levels. More recently, it was Sweden in 2009 and Denmark in 2012 enacting NIRP in a similar defense of their currencies.

The ECB in 2014 and now Japan have reintroduced the monetary policy tool as a means to take more aggressive action towards stimulating economies and staving off deflationary scenarios. As with all economic decisions, the potentially positive outcomes come with potential risks to the down-side as well. Reduced deposits and reduced profitability could lead to unpredictable actions by banks. Instability, competitive currency devaluations, and globally distorted capital markets could result.

While the extreme downside scenarios always make for good conversation, it's important not to forget the extreme scenario the world just experienced with the financial crisis of 2008/09 which was alleviated through unprecedented central bank actions such as ZIRP and quantitative easing. It may be that a policy just as extreme, like zero interest rate policy, is what the global economy needs now to recover. It is also important to remember that global economies have operated through extreme environments many times in the past only to find a way out of the darkness, usually rewarding long-term investors for their confidence and commitment. For those who stay within their risk tolerances, I don't see any reason that trend shouldn't continue into the future.

Ryan Crooks, Investment Manager

Schwab Apps Available for Download

Schwab customers who have already signed up for Schwab Alliance (Schwab's online access) can now access accounts through the Schwab **mobile app**.

In addition to checking account balances, the mobile app provides a convenient way to deposit checks and approve wire transfers.

Download the Schwab mobile app at your Apple, Android, or Kindle app store. You can find the **Schwab Alliance Mobile Set-Up Guide** online or simply call us and we'll email you a copy so you can get the correct settings for alerts and approvals.

Lori Hartman, Investment Manager

In Times of Uncertainty, Don't Run Out of Gas

The question I am asked most frequently is "where do you think the markets are headed next?" That's not an unexpected question since most people know I spend my days thinking about such things. But experience tells me that there's much more to this question. I believe what most of us really want to know is 'how do I make money in this volatile, unpredictable market without losing a lot if the market goes south?'

Over the past seven years the markets moved forward with gains averaging about 14% each year. In 2015 though, the market barely moved. Then 2016 began with the worst start in over 100 years. This has put investors on edge, feeling acutely aware that the global geopolitical situation is as unstable as ever, central bankers are implementing controversial policies, and the U.S. is in the throes of an ugly election cycle.

South Jersey Industries is a company that is not concerned with the direction of the stock market or the health of the global economy. SJI is busy serving its customers, keeping its employees safe, and looking to reward its shareholders.

South Jersey Industries has been in business since 1910 when it was known as Atlantic City Gas and Water Company. Over the decades the company acquired numerous smaller gas companies in the region, and today it serves about 375,000 customers through its main subsidiary, South Jersey Gas, in the seven southernmost counties of New Jersey. In addition to this regulated gas utility business, the company serves industrial customers like manufacturers and electric plants on a non-regulated basis. SJI also has non-regulated subsidiaries that are involved in the distribution and sale of natural gas plus a significant investment in solar.

As a regional, regulated gas utility, South Jersey Gas grows as new homes are built in its service territory. The 2008/9 recession slowed down home construction considerably, and over the past few years the company has focused on converting existing homes from other heat sources (oil and electric, for example) to natural gas. The strategy is working, and new customer growth has been in the 5-6,000 range in each of the past few years. Even as the number of customers has grown, though, the price of natural gas has fallen and SJI passes savings along to its customers.

Regulated utilities can also earn a rate of return on capital invested in improving the existing infrastructure. Following Superstorm Sandy, the New Jersey Board of Public Utilities has supported SJI and the other regional gas utilities in improving the safety and reliability of the state's natural gas infrastructure by replacing bare steel and brittle cast iron pipes much faster than originally planned. SJI's Accelerated Infrastructure Replacement Program has filed a $500million, seven year extension to their original plan filed in 2009. Returns on that investment are regulated by the BPU, but this is the type of project that rewards shareholders and communities alike for the long term.

SJI serves many industrial customers throughout the region, and one project in particular has gotten a lot of press lately. The B.L. England electric generating station in Cape May County wants to convert from coal and oil to a natural gas-fed turbine to help meet the evolving air quality standards set by the State. A 22 mile pipeline has been proposed, part of which would run through the protected Pinelands. The project has received approval from the BPU, but faces further protests from environmentalists concerned with its impact on the Pines. This is the sort of conundrum utilities often face, where projects designed to meet one environmental standard are fought by a different set of environmentalists; hopefully a solution is reached that has minimal impact on the Pinelands and safely improves the overall situation.

A significant new development for SJI is its part in the development of the PennEast Pipeline, a 118-mile, $1 billion interstate pipeline that will bring inexpensive natural gas to Mercer County, New Jersey, from the Marcellus Shale in Pennsylvania. The capacity for this pipeline is already fully subscribed and 80% of the capacity is under 15-year agreements – now the job is just to get it approved, financed, and built. SJI is a 20% equity owner in the project.

In 2015 SJI wrote down a significant investment in a power generating station dedicated to the Revel casino in Atlantic City. The failure of this investment and the capital involved definitely hurt shareholders and shook the confidence of those who know SJI as a company that takes many precautions in their allocation of capital. I believe this failure led to the recent CEO change, and the company is back on track for stable results going forward.

South Jersey Industries has committed to delivering high quality earnings, strengthening their balance sheet, and minimizing business risk. I believe the right management team is in place to do that. The stock pays a 3.80% dividend, and the capital allocation plan includes plans for growth (the dividend has grown 60% over the past five years). As uncertainty surrounds us, I believe SJI will be a stabilizing factor for investors looking for income and growth.

Mark Frombach, Chief Investment Officer

Fraudulent Tax Filing

I recently received a letter from the IRS stating that they had received my federal income tax return. That doesn't seem too out of the ordinary for this time of year, but that wasn't the end of the letter. Already I could sense something was wrong because although I had gotten all my information together and over to my accountant, I hadn't seen or signed a completed return yet. The letter went on to explain that apparently someone else filed a tax return on my behalf. Fortunately, something on the fraudulently filed return raised a red flag to the IRS and I was being instructed to verify my identity before the return would be processed. Here's my experience in dealing with this, in case you find yourself in a similar situation:

According to the IRS letter you have 30 days to verify your identity, either by phone or online. As part of the verification process you'll need a copy of the previous year's tax return. I opted to go online; the letter states that it is quick and secure. The very first page of the online verification asks for personal information including a full social security number. My first inclination is to wonder if this is a legitimate website. I am always reluctant to provide my full social security number, especially online. Before continuing I decided to do a quick Google search to make sure this site was not a scam. I mention this because most people don't take this step. People receive phone calls, letters and emails and provide information willingly when it appears professional and legal. Take a minute to do a search online.

After providing the personal information, move to Step 2 which asks further identifying questions. The final Step of the process was one question – did we file our 2015 taxes? It's a simple yes or no choice. I inform them that I have not yet filed and am told that the fraudulently filed return will not be processed and that for this tax year I must file a paper return.

That part was simple. But it was also disturbing. Someone has my social security number which has many uses to a criminal. The IRS site provided some great resources to help with the next steps:

- File a complaint with the FTC at www.identitytheft.gov.
- Contact one of the three major credit bureaus to place a fraud alert on your credit records. All agencies are listed with their phone numbers.
- Contact your financial institutions, and close any financial or credit accounts opened without your permission or tampered with by identity thieves.

All of these steps along with details can be found by doing a search at www.irs.gov, keyword 5071C.

I took one extra step beyond what is listed here; I immediately changed all of my online passwords. There are also further security measures that can be taken at Schwab that we can discuss with you.

It is unfortunately all too common to have our personal information compromised. In the current environment we use debit/credit cards daily, we put our information online to make purchases, and we use ATM machines. All of these interactions are points where the wrong people can steal information from us. I don't think it can be avoided. Protect your personal information as best as possible, and if this happens to you take immediate corrective action and notify us as soon as possible.

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