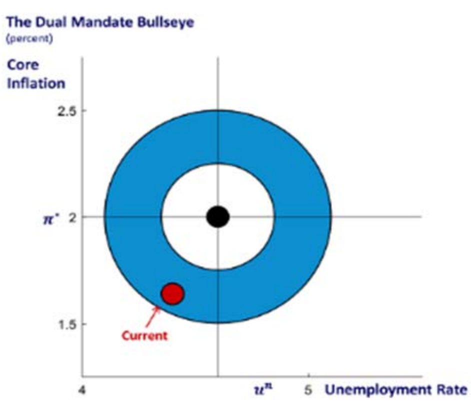
Outlook

A Quarterly Newsletter from Roffman Miller Associates

Global Reflation?

Over the last couple of years there has been a lot of talk about a global reflation. Reflation is the coordinated effort of policy makers and central bankers to jumpstart an economy that has been in recession, hoping eventually to produce both GDP growth and inflation. Inflation is a good thing as long as it's moderate and measured. We certainly don't want to deal with deflation. Japan has been fighting deflation for over 25 years. It is crippling to an economy because as prices fall and uncertainty reigns, consumers delay purchases. Companies lower the prices of their goods or services, which in turn leads to lower profits and lowers wages for employees. Consumers delay purchases further. Deflation is a vicious cycle that feeds on itself. Once it sets in it's very hard to reverse course.

In the US, our central bank, the Federal Reserve, has a dual mandate that focuses on core inflation and the unemployment rate. Their target for core inflation is 2%. The unemployment rate target gets a little tricky but the long term target is in the range of 4.5% - 5%. In 2016 US core inflation was right on target. So far in 2017 we've seen inflation moderating. This slowdown in inflation has also been witnessed in Europe and in the Emerging Markets. The Fed hopes that the improving US employment picture will eventually lead to higher wages. In my opinion, in our consumer driven economy, increasing wages are the key to increasing inflation. Unfortunately we haven't seen significant wage growth yet and as a result inflation has been a little lower than I would like to see.



We've also seen falling commodity prices this year. Oil is down approximately 18% since the March highs and iron ore is down over 40%. Since March we've also watched the interest rate on the 10 year Treasury steadily fall even as short-term rates have risen. Trying to digest all of this economic data has certainly made for an interesting year.

Despite all of the mixed economic data the US stock markets have done quite well. For the most part earnings reports have been strong and the management teams who run our companies have been optimistic. The unemployment rate is low and GDP growth appears to be stable. If you're reading blogs that are warning of run-away inflation, just remember they're probably trying to sell you something! All-in-all our economy is doing just fine. Remember, the key to successful investing is having a long-term plan and sticking with it. As always the team here at Roffman Miller is available to answer any of your questions.

Sincerely,
Bob Hofmann
President

10 July 2017

Money Market Reform and Your Schwab Account

Driven by events that occurred during the 2008 financial crisis, the Securities and Exchange Commission (SEC) implemented a series of changes to the regulations that govern money market funds (MMFs). The first group of changes occurred in 2010 and was related primarily to portfolio composition and the ability to suspend redemptions in times of stress. The second group of changes was announced in July 2014 and included many additional and significant reforms. These new rules are intended to increase fund liquidity and to protect investors. The changes necessary to comply with the SEC rules relating to *Variable Net Asset Value* (NAV), *Liquidity Fees*, and *Redemption Gates*, went into effect October 2016.

The good news is that we don't expect any of our clients to be meaningfully impacted by the Money Market Fund Reform rules.

One effect of the regulations is that brokerage accounts will not be eligible to use a 'sweep' money market Fund. What does this mean? If your account currently has a sweep money market, then when interest is earned, a dividend is paid, or a position sold, the cash automatically sweeps into a money market account each night. Recently opened accounts have not had access to sweep funds for over five years, and new accounts will use either the Schwab Bank Sweep feature or the Schwab One Interest feature for cash management. The Schwab Bank Sweep deposits are FDIC insured. The Schwab One Interest feature will be available for taxable accounts but not retirement accounts. Both the Schwab Bank Sweep and the Schwab One Interest feature currently pay 0.10%.

<u>Purchased Money Market Funds to Maximize Cash Returns</u>

For any number of reasons, many of our clients hold large amounts of cash from time to time. If this sounds like you, your Investment Manager will probably consider a purchased money market fund. Don't be turned off by the term "purchased" because there are no transaction costs involved, but a trade is required to buy or sell these funds. The benefit of these funds is that they have a higher yield than the non-money market cash features. However, the higher yields come with minimum initial and ongoing balances. Cash settlement is in one day, so there is not a great impact on liquidity. But as you can see, the regulations are forcing investors to be more conscious of their cash management decisions – something that Roffman Miller would have been doing anyway.

Another change is which money markets will be available for you to purchase. Depending on your account's registration, Schwab may deem your account as either for a *retail* investor or *institutional* investor and this distinction will decide the account's eligibility for various money market funds. (Unless your account is a pension trust, it's most likely considered a retail account). The bottom line is that regardless of your account's registration, Schwab has an excellent lineup of available money markets.

Looking ahead, more changes will take place. Although there is no timeline given, we expect Schwab may switch accounts now using money market sweep accounts to either the Schwab Bank Sweep or Schwab One Interest cash feature mentioned previously. If this happens Schwab will notify both you and Roffman Miller. As always, if you ever have any questions or concerns please contact your Investment Manager.

Kevin Cooke, Investment Manager

Fraud Alert: Phishing Campaigns reported at Schwab

Phishing is when you receive a fraudulent email that appears to be sent by a reputable company, in this case Charles Schwab. The email may provide a link to a legitimate-looking Schwab website and prompt you to provide personal information.

Charles Schwab will not ask you to provide information by email.

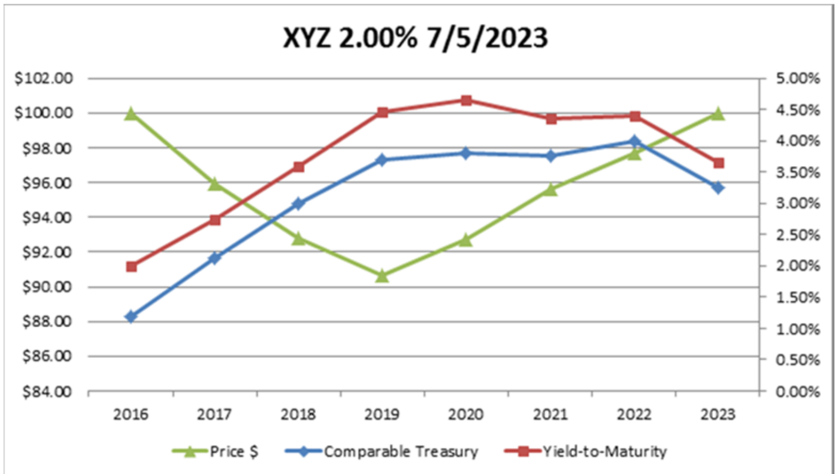
If you receive a suspected fraudulent email please:

1. **DO NOT click links** within the email and **DO NOT provide any personal information**.
2. Forward a copy of the email **as an attachment**, if possible, to us.

Fixed Income Corner

I have written several times in past newsletters about not "losing any money" and earning your purchased yield-to-maturity when holding a bond to maturity, which is always our intent when we build a bond ladder. But this can be a difficult concept for some people to grasp when interest rates move up and bond prices move down the way they have over the last year. The 10-year treasury bond hit an all-time low of 1.367% on July 5th of last year which, on the one year anniversary as I write this, is a good reminder of how quickly things can change in the market. You should know what to expect from your bonds and why, despite a little red ink on your statement, you *want* interest rates to move higher.

Below is a graph of a sample 7-year corporate bond over what I believe would be a fairly aggressive rising interest rate environment. The red line indicates the market interest rate for corporate bonds as time progresses over the next seven years, almost doubling from 2% to nearly 4%. The green line, representing the price of our sample bond, falls initially with the rapid rise in rates. Eventually though the bond price recovers and pays us face value at maturity, reversing the earlier paper losses.



There are many moving components that make predicting interest rates and bond prices difficult or impossible, but I hope this graphic example is reassurance that short of an unforeseen default, your bonds' prices won't fall off into the abyss just because rates are rising. In addition, while interest rates are moving higher we would be reinvesting your shorter term bonds at those higher interest rates as they mature. This is why, in my opinion, the bond ladder structure is the right approach and why we want to see higher interest rates. Before you know it we'll be reinvesting that 7-year bond at maturity. We'll all be seven years older but there's no bond math to make us feel better about that!

Ryan Crooks, Investment Manager

Researching Retirement

Those of you who have known me for any period of time know that I spent my life helping people take charge of their financial future. Now, 11 months into my own retirement, I have been hard at work researching, studying, and interviewing numerous retired persons and I have come up with a new theory on retirement. While many think that the most important element in preparing for the golden years is their financial health, there are two other equally important considerations: your physical health and your mental health. The key to retirement is a combination of these three factors, and the answer to the question 'when is the best time to retire?' should incorporate them all.

It wasn't a bad thing to be narrowly focused on financial aspect of planning – we have had many happy clients retire over the years. But now I was very excited about my new approach. Maybe it could be the basis for a new book. I could spend chapters on the mental and physical preparation required for a successful retirement. I really thought that I had something new and different here. That was before I explained this new discovery to my wife. Her response was, "isn't that the same old thing Ben Franklin wrote.. something about healthy, wealthy and wise?"

I'm happy to report that I am enjoying retirement. As my wife often says, "we are blessed" (she is a very smart lady and a great partner who keeps me on track). We often find things about retirement and growing older to laugh about. Some are our own experiences, others are from friends. Going forward I would like to share these stories with you. I thought it would be nice if you, our clients, had a forum to share your stories about retirement. Please contact me at peter@roffmanmiller.com and I will try to make this a regular part of our quarterly newsletter.

Wishing all of you a healthy, wealthy and wise year,

Peter Miller

Vacation

In April of this year, I went on a vacation with my extended family which included my wife and 2 kids, a couple of grandparents, brother and sister in-law, 3 nieces and nephews. Every two years the group heads off to Orlando, Florida, for a family fun-week of rides, food, lots of walking, and some residual back pain (caused by carrying the kids). When I returned home, I thought about the idea of how many companies Roffman Miller follows that we come in contact with on a daily basis, using my vacation as the example.

I left the airport on April 13th heading to Disney World (**DIS**). I flew on a jet, made by Boeing (**BA**) which had engines made by General Electric (**GE**). Before my flight, I used my Apple iPhone (**AAPL**) to do some research, using the Google (**GOOGL**) application on my Verizon (**VZ**) network. During my 2 hour flight, I drank a Pepsi (**PEP**) and had some chips.

The first day, we ate at various locations in the park. So I had Heinz ketchup (**KHC**) on my burger which I am sure was seasoned with a McCormick & Co. (**MKC)** seasoning product. My wife drank a coffee at a Starbucks (**SBUX**) location. Though I did not eat there, I did pass a McDonalds (**MCD**) location on the way to the Animal Kingdom. We stopped in at Downtown Disney, where I window shopped at the Under Armour store (**UA**). And as normally happens, my daughter needed a Band-Aid from Johnson & Johnson (**JNJ**).

At night, I logged into my laptop using a Microsoft (**MSFT**) application and my calculator from Texas Instruments (**TXN**) and I wrote a note for myself on a yellow Post-It note from 3M (**MMM**). And before I went to bed, I brushed my teeth with Colgate (**CL**) toothpaste. I adjusted the room temperature on the Honeywell (**HON**) thermostat. Our room had products from Proctor & Gamble (**PG**), such as Gillette razors, Bounty paper towels, Dawn, Tide detergent, Pampers (I have a 10 month old child) and Oral-B.

On the way home, I filled up the tank at Exxon Mobil (**XOM**) and stopped at CVS Pharmacy (**CVS**) to buy some products on my Discover **(DFS**) credit card.

That's twenty-two companies off the top of my head that we interact with on a daily basis. And if I did a deeper dive I'm sure I would connect the dots and come up with countless others. You'll probably recognize some of those companies mentioned, as we have owned them all at one point or another. The point of my story is that we look at our stocks not just as a jumble of symbols flowing across the bottom of the TV screen flashing green and red. These are companies; great companies with products and services that we utilize every day.

Gerry Guertin, Investment Manager

We cannot accept email requests for cash transfers or trades

This topic has come up in the newsletter before, but it bears repeating. **Please do not submit requests for trades or money transfers by email.** In the event that we receive an email from you with such a request, we will call you to confirm; this may cause undue delays in getting your request fulfilled, so please consider just giving us a call first. We apologize in advance for the inconvenience, but there is an abundance of fraud and attempted fraud perpetrated through email. (please also read the Fraud Alert on page 2)

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