Outlook

A Quarterly Newsletter from Roffman Miller Associates

A Consistency of Purpose

Throughout my years at Roffman Miller - I stopped counting at 20 - we have written more than 80 quarterly letters and newsletters. I have read them all and edited quite a few of them, and I can confidently report that it is definitely harder to write one. So when I volunteered to take my turn in writing this cover letter, I began by re-reading some of our past letters. What I discovered is that no matter who is writing, several themes are repeated over and over. These themes, I believe, are the cornerstone of Roffman Miller's philosophy as an investment firm:

> *We buy companies not the stock market*; we have always felt that it is the people, services and products our companies provide that we are investing in.
>
> *We are long-term investors;* we take the word 'investment' seriously and when we invest in a company it is because we believe they have potential to grow and continue to grow and reward shareholders, not just for one or two quarters.
>
> *We are not market timers;* trying to figure out the short-term direction of the markets is futile.
>
> *Having a plan is of utmost importance;* the planning process helps us as individuals to define our needs and goals, and to shape (and stick to) our investment objectives.

If you have been a client with us for a long time, you have heard us talk about these things ad nauseam and it's not because we have run out of things to say. We believe these foundational values work - and we believe they will continue to work in the future.

What I find equally interesting as the themes themselves is our consistency of purpose. We have all seen a lot of "new and better" investing ideas come and go. Who doesn't remember the "new paradigm," or day trading? Roffman Miller does not jump on the proverbial bandwagon. We have remained committed to our philosophy, even though it hasn't always been the most popular choice. This was one of the things that originally drew me to Roffman Miller, then kept me here for all these years and now, as a leader, is my focus as we plan for the future.

I know I can speak for everyone at Roffman Miller when I say we appreciate our partnership with you. We also know that plans, like life, can change, so please call your advisor and let them know what is going on with you today. We look forward to being part of your continued financial success for a long time to come.

Sincerely,

Paulette Greenwell
Vice President

10 October 2017

Fixed Income Corner: The Municipal Bond Interest Exemption

In 1913, when the Federal Income Tax was enacted, the Municipal Interest Exemption became the standard policy. Since then, taxes and tax reform have become very complicated and hotly contested topics. I thought it might be worth sharing some ideas on where the discussion of the municipal bond interest exemption should begin.

Muni bonds typically trade at a market interest rate that is less than a comparable treasury bond because investors can receive municipal bond interest without owing federal tax on that income. When assessing the value of that investment versus alternative taxable investment choices (e.g. treasury or corporate bonds), investors need to calculate the Taxable-Equivalent Yield (TEY) which is specific to their marginal tax rate. For example, someone in the 33% marginal tax bracket who is considering buying a municipal bond with a 2.00% yield-to-maturity (YTM) would get their TEY by dividing the YTM by 1 minus their marginal tax rate (2.00/(1.00 – .33)). In this example the TEY is calculated to be 2.99%. So, all else being equal, if the investor can find a taxable bond investment that offers a yield higher than 2.99%, they would enjoy greater income even after paying the tax than if they had bought the tax-free municipal. Why this is germane to the tax reform debate is that if the tax-free status of municipal bonds is eliminated, the value of existing municipal bonds is likely to fall, and borrowing costs for states, counties, and other municipalities are sure to go up. Without getting into all of the other complicating factors, the taxable-equivalent yield is a natural place to start the conversation of how such a change in tax policy would affect investors, borrowers, and let's not forget, taxpayers.

Ryan Crooks, Investment Manager

Researching Retirement

For over 25 years at Roffman Miller I told our clients that successful companies are run by leaders who hire talented people and then delegate responsibilities. That turned out to be an excellent barometer of company performance and I was even able to apply it in our own workplace. Now that I'm retired, I've set out to make the most of my time and look at the things I can delegate in my personal life. One decision came easy - I am happy to report that after many, many years of doing it myself I have turned over the management of my own investments to my colleagues at Roffman Miller.

I understand how this can be a difficult decision for many people approaching retirement as they look to hire an investment advisor or consolidate assets as many of you have done over the years. But for me, it was an easy one. I've heard all the arguments for and against hiring an Investment Advisor. I have realized that even though I could continue to manage things on my own, there are other priorities in my life. Most important, I like retirement! Spending more time with family and friends makes me feel great. But my reasons go much deeper. In the long run, people my age should have a steady and consistent hand at the wheel for the duration of their retirement years. Which means you need an investment team that is, on average, younger than you. And of course, there was always the possibility that at some point I would be unable to manage things on my own. For some, this puts an extra burden on their family. For others this is a vulnerable time to be venturing out to find help from someone they trust. In my case, the decision was simple: I've known my team for years (I should – I hired them).

I want to thank all of you who sent me stories about your retirement. Many of them were happy and funny. Unfortunately, there is also a downside to retirement. Loss of a loved one or health problems can tarnish the so-called golden years. Make the most of the time you have; that's what I'm doing. Please keep sharing your experiences, I love hearing from you.

Peter Miller, Chairman & Founder

Activist Investors – what they Deliver?

2017 has given us a bumper crop of Activist Investors. If you have received proxy solicitations from some of the bigger deals, like Procter&Gamble or ADP, you are square in the middle of a fight for control of the company's board of directors and they are bringing the vote right to you, the shareholder, to decide which side should have more influence on the company. In other cases, activists wage less public campaigns to bring about changes at the companies they invest in.

What are activists after? Believe it or not, not all investors are exclusively interested in better investment returns on their money. Many are, but at almost every annual shareholder meeting I have attended there is an opportunity for questions and comments from the attendees, and inevitably someone stands up and petitions the company's management team to protect the environment, reinforce ethical business practices, and invest in the local communities in which they do business.

In the end, though, most activist investors differ very little from the rest of investors – they would simply like to make more on their investment. What makes activists different is instead of investing in companies where they believe everything is going well, they look for problems that they believe they can help fix, problems the current board and management are not addressing and which, if resolved, will lead to even greater returns on investment. Beyond P&G and ADP, this summer's headline activist stories included Saks Fifth Ave, PPG Industries, Buffalo Wild Wings, General Motors, Time Inc., Nestle, Avon, Barnes&Noble… I could go on to demonstrate how widespread this is, but let's suffice to say it is something to be aware of and has an impact – two CEOs out of those eight companies just mentioned were forced out by activists in just the past few months.

In some ways I suppose you could look at this as a Darwinian process – only the strongest corporate management team will survive. Unfortunately, we all know that when dealing with Wall Street it is hard to know which side to choose because the motivations for each side can be somewhat opaque. Is any activist investor *really* committed to holding an investment for the long-term growth and dividend returns? And once they are approached by an activist's new ideas, does management firmly believe that they are currently doing everything right or are they just afraid to admit someone else had a better idea?

In 2012 as businesses across the globe were recovering from the 2008 financial crisis, Fedex provided the investment community with an updated strategy and new initiatives to drive more profitable business and customer focus, two things that can be difficult to accomplish at the same time. They invested $4 billion dollars in capital that year, half of it related to modernizing their fleet of aircraft. The Boeing 767s purchased that year would be much more fuel efficient replacements for the planes they were currently flying. At the same time, Fedex was changing up the game in freight and ground-express delivery – moves that ultimately led to market share gains taken from their main competitor's most profitable segment. The market apparently didn't see any of this as special, and the stock price at the end of 2012 was less than it was at the close of 2011, and was still below 2008's closing price.

In November 2013 it was widely reported that at least three 'famous' hedge fund billionaire/activists had taken large positions in Fedex.

Between 2012 and 2016, Fedex would use its strong balance sheet to buy back over 14% of the company's outstanding stock. Because of the sharpened focus on cost and quality execution, profit margins expanded, earnings per share more than doubled, the dividend would grow, on average, almost 30% per year, and the stock price doubled.

Can Fedex keep delivering like this? We still believe Fedex is a very high-quality organization with excellent leadership, and global GDP growth provides them a long runway for revenue growth. On the downside, Fedex founder, Chariman, and CEO Fred Smith is 73 years old and will eventually have to step aside, already having given up the title of President in 2017. And shipping continues to be a competitive, capital intensive business with large competitors and new rumors about online retailer Amazon.com starting its own package delivery service.

Looking back at those notable investments made in 2013, I have found very little interaction in the subsequent years between Fedex and the investors – no public meetings, no proxy fights, etc. In fact, by the time those investments were made Fedex was more than a year into executing on its renewed strategic initiatives. It is possible that these large investors quietly helped shape Fedex's 2012 initiatives. Or, possibly, their independent research efforts concluded that Fedex represented a good investment opportunity at the time. In either case, this is an example of activists' interests being aligned with the rest of us. We will continue to evaluate each one of these situations independently when they are significant to our current holdings.

Mark Frombach, Chief Investment Officer

Pay Raise

Who doesn't like a pay raise? When investing for the future, the standard options are equities (stocks) or fixed income (bonds). Just as it sounds, fixed income means that when bonds are bought and held to maturity, the exact amount of interest is known and paid every 6 months. The interest we receive is the stated coupon on the bond, i.e. 3%, 3.50%, etc. When a $10,000 bond is bought with a 3% coupon, the annual interest is 'fixed' at $300 and the semi-annual interest is $150. The annual interest will be paid each year until the bond matures. The owner of the bond does not receive an interest payment increase at any time.

When stocks are purchased, the owner of the security can be entitled to a dividend payout if the company decides to pay some of its cash earnings to shareholders. As each year goes by, the company decides whether to pay a dividend and also whether they will increase the dividend payout over last year's amount.

The majority of stocks held in accounts managed by Roffman Miller do pay dividends. Those dividends have tended to increase over time. Hence, who does not like a raise? I certainly do and I hope that our clients have the same desire. Portfolio growth can come in the form of higher stock prices and from increased dividend payments. The following are examples of 'Pay Raises' that have been recently announced:

Company	Announcement Date	Dividend Increase %
JP Morgan	9/19/17	12%
Microsoft	9/19/17	7.60%
McDonalds	9/21/17	7.50%
Texas Instruments	9/21/17	24%
American Express	9/26/17	9%
Honeywell	9/29/17	12%
RPM	10/5/17	6.70%

Gerry Guertin, Investment Manager

Introduction to eAuthorization

If you have web and/or mobile access to your Schwab account, we'd like to introduce you to eAuthorization.

eAuthorization eliminates the need for a Wire Authorization form when you request a wire transfer. Roffman Miller can initiate your wire transfer request via our secure Schwab Institutional online portal. You will then receive notification when the wire is set up and ready to be approved. Once you log in securely and approve the wire via Schwab Alliance or Schwab Mobile, you are notified of the authorization and Schwab begins processing the request.

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