Roffman Miller
Wealth Management

outlook

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A Hard Day's Night

Calendar year 2017 was an unprecedented year for the US stock market. The surprise wasn't the good results; rather it was the lack of volatility.

Long-term investors are all too familiar with the ups and downs of the market. However in 2017 the market had very little downside movement. In fact last year's market was the quietest market in terms of volatility since 1964! That was the year the Beatles made their first appearance on the Ed Sullivan Show. A recent Morgan Stanley publication cited that the 2017 volatility was "at the very low end of the past 120 years."

Bob Hofmann
President

In 2018 volatility has returned but this isn't the first time the market had a choppy beginning to a new year. If you look at the chart you will see nine different years when the market experienced declines of 10% or more during the first quarter. In seven of the nine years the market ended the year with a positive return.

We don't have to go too far back to remember a rough first quarter. Back in 2016 the market experienced a 10% decline in the first quarter on fears of a slowing Chinese economy. Albeit a rocky first quarter, the market ended 2016 with a respectable 12% gain.

Long-term Roffman Miller clients know the moral of the story. In order to be a successful investor you must have the following disciplines: stay diversified, own high-quality investments and invest for the long-term. This is the hallmark of the Roffman Miller investment philosophy. Warren Buffet once said: "If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes." Personally I wouldn't go as far as Warren but I do agree with his overriding premise.

In order to be a successful investor you need to avoid the negative emotions and the noise and stay committed to your long-term plan. As always if anyone would like to discuss their plan, please free to call us at any time.

S&P 500 Change (%)

Quarter	Max Decline	Max Gain	Rest of Year
Q1 1932	-18.6%	19.7%	-5.34%
Q1 1933	-24.7%	25.3%	70.43%
Q1 1934	-11.8%	21.1%	-10.55%
Q1 1938	-28.9%	13.6%	54.59%
Q1 1939	-17%	13.6%	13.48%
Q1 1980	-17.1%	12.6%	32.98%
Q1 2003	-14.1%	11.9%	31.09%
Q1 2009	-27.6%	23.1%	39.76%
Q1 2016	-10.5%	12.2%	11.8%

Donating Appreciated Stock Offers Tax Advantages

When many people think about charitable giving, they picture writing a check or dropping off a cardboard box of nonperishable food items at a designated location. But giving to charity can take many different forms. One that you may not be aware of is a gift of appreciated stock. Yes, donating part of your portfolio is not only possible, but it also can be a great way to boost the tax benefits of your charitable giving.

NO PAIN FROM GAINS

Many charitable organizations are more than happy to receive appreciated stock as a gift. It's not unusual for these entities to maintain stock portfolios, and they're also free to sell donated stock.

As a donor, contributing appreciated stock can entitle you to a tax deduction equal to the securities' fair market value — just as if you had sold the stock and contributed the cash. But neither you nor the charity receiving the stock will owe capital gains tax on the appreciation. So you not only get the deduction, but also avoid a capital gains hit.

The key word here is "appreciated". The strategy doesn't work with stock that's declined in value. If you have securities that have taken a loss, you'll be better off selling the stock and donating the proceeds. This way, you can take two deductions (up to applicable limits): one for the capital loss and one for the charitable donation.

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Flat Curve?

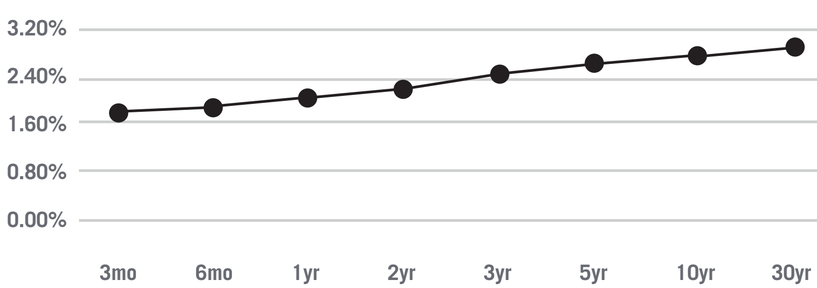
Leave it to the bond market to make something as simple as a flat or curved line, complicated!

Ryan Crooks
Investment Manager

As the Federal Reserve has tried to normalize interest rate policy in response to a continuing improvement in the economy, the market has shown some skepticism towards the Fed's confidence. The Fed believes that strong economic growth in domestic and foreign economies has led to tight labor markets, and this will in turn lead to higher wage inflation and more persistent price inflation for goods and services. Those are key factors in the Fed's decision to raise rates. But skeptics are evident in the shape of the current Treasury yield curve: despite the Fed raising short term rates five times over the past 15 months, rates at the longer-end of the curve, which is historically left to the control of the markets, remain somewhat stagnant. There are more forces at work here: the Fed continues to unwind the massive post-crisis quantitative easing program which will take years to accomplish and will continue to exert a downward influence on medium and long-term interest rates. The same thing will be happening at central banks around the world which have thus far shown little progress, reflected in the ten-year bond rates for Germany (0.5%) and Japan (0.03%). The net result is a flattening of the 'curve,' where there is little difference between short and longer term rates.

A flat yield curve for investors means that we get paid less for each incremental amount of maturity we extend on the curve. But, it's important to remember that interest rates can move in response to a variety of economic factors and we could just as easily see the curve fall if the economy has a major stumble. That's why it's important not to stay entirely in cash or very short bonds assuming you're going to get paid more next year. A properly laddered portfolio of bonds is going to provide liquidity if those higher rates do come (let's hope!), and they help to earn as much as we can while ensuring we don't get surprised if things don't go the way we've planned.

TREASURY CURVE



(Tax Advantages from page 1)

INEVITABLE RESTRICTIONS

Inevitably, there are restrictions on deductions for donating appreciated stock. Annually you may deduct appreciated stock contributions to public charities only up to 30% of your adjusted gross income (AGI). For donations to nonoperating private foundations, the limit is 20% of AGI. Any excess can be carried forward up to five years.

So, for example, if you contribute $50,000 of appreciated stock to a public charity and have an AGI of $100,000, you can deduct just $30,000 this year. You can carry forward the unused $20,000 to next year. Whatever amount (if any) you can't use next year can be carried forward until used up or you hit the five-year mark, whichever occurs first.

Moreover, you must have owned the security for at least one year to deduct the fair market value. Otherwise, the deduction is limited to your tax basis (generally what you paid for the stock). Also, the charity must be a 501(c)(3) organization.

Last, these rules apply only to appreciated stock. If you donate a different form of appreciated property, such as artwork or jewelry, different requirements apply.

INTRIGUING OPTION

A donation of appreciated stock may not be the simplest way to give to charity. But, for the savvy investor looking to make a positive difference and manage capital gains tax liability, it can be a powerful strategy. Please contact your tax professional for help deciding whether it's right for you and, if so, how to properly execute the donation.

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Lynn, Gottschalk and Company specializes in providing quality, personalized accounting and tax services to individuals and businesses. www.lynngott.com.

JPMorgan Chase & Co.

What can a company's stock price tell you?

Mark Frombach
Chief Investment Officer

The average price of JPMorgan Chase stock in 2007 was $47.75. That was the year subprime lending made headlines, the number of foreclosures nationwide began to rise dramatically, several lenders declared bankruptcy, and banks began to realize they were sitting on worthless assets. By 2008 the U.S. was in recession and the mortgage crisis here had spread and infected the world banking system, leading to a global credit crisis. On March 16th that year the Federal Reserve facilitated the purchase of Bear Stearns by JPMorgan Chase for $10/share, down from a recent $133/share. On September 25, 2008, the nation's sixth largest bank, Washington Mutual, was closed by Federal regulators and sold to JPMorgan Chase for $1.9 billion. Customers of the defunct bank, with $188 billion in deposits, are told on September 26th that their deposits are now liabilities of JPMorgan Chase.

For many, the next ten years were a blur of turbulent markets, lost jobs, abandoned construction sites, and government intervention. But at JPMorgan Chase, there was a lot of work to be done in regaining the faith of the banking public and in helping to provide the financial underpinnings of a recovery in the US economy.

JPMorgan Chase is a financial powerhouse with over $2.5 trillion in assets and worldwide operations. The company is a leader in all five of its divisions: Investment Banking, Financial Services for consumers and small business, Commercial Banking, Financial Transaction Processing, and Asset Management. They have relationships with 50% of American households and stand as #1 in US credit and debit payments volume. They are #1 in Global Investment Banking fees. And they are the #1 Private Bank in North America with $2.8 trillion in investment assets managed.

A lot of credit for JPMorgan's survival of the 2008 crisis and the past decade of success is given to CEO Jamie Dimon. Dimon began his career under the wing of Sandy Weil at American Express. From there, the pair took over a failing consumer finance company and spent 13 years transforming it into Citigroup, where Dimon served as chief financial officer. He left Citi to become CEO of Bank One, which was eventually purchased by JPMorgan Chase, and was named CEO of the combined entity in 2005.

Dimon, now 62, shows little sign of slowing down in his most recent 46-page annual letter to shareholders. His detractors point to the executive's political writings and believe he is a risk to the company because of his outspoken views on public policy, taxes, and entitlement programs, while supporters believe that he shows an understanding that can help shape corporate governance here in the U.S. and improve global engagement with respect to trade and immigration. Dimon is such a visible figure that people speculate on the possibility of him running for President. We do recognize that as a risk to the company; Dimon, however, has stated publicly that he and the board of directors expect him to be in place for approximately the next five years.

JPMorgan Chase traces its roots back to 1799 when the Manhattan Company, a water company tasked with running wooden water pipes through New York City, took advantage of a clause in their charter allowing the company to use its extra capital for banking purposes. Because there was only one state-chartered bank in New York at the time, this broke the monopoly held by Alexander Hamilton and caused a rift between he and one of the Manhattan Company's founders, Aaron Burr. (those of you who remember US history class are familiar with how that story ends).

Today, the company employs over 250,000 people. Revenues have grown over the past five years and expenses have declined. Banks are doing ok in this economy, and large banks may have an advantage: persistent low interest rates combined with higher regulatory expenses and more oversight/less risk all point to a difficult future for banks that can't implement large scale technologies to improve services and reduce costs. JPMorgan Chase has over 46 million digital customers and is the #1 most visited bank website with the most mobile banking customers. Advantages like this will help drive cash flow that rewards shareholders in dividends, share buybacks, and EPS. In the past two years alone, the company has reduced the shares outstanding by 6.5% and increased the dividend by 23%.

The stock now fetches over $110/share and the dividend yields just about 2%. When your company performance stands apart from your peers, you get recognized, and I can't think of another large bank stock that outperformed JPM through the recent crisis and recovery. While it might not be as cheap today as it was for last year's buyers, the stock reflects investor confidence in a good quality company with an excellent management team.

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Giving to Charity from your IRA

Don't forget, QCDs can count towards your annual Required Minimum Distributions.

RaRa Souriyamath

To make it easier when making charitable donations from your IRA account, Schwab has rolled out a new IRA Checkwriting feature that will allow account holders to write checks directly from their IRA account cash balances.

We have mentioned QCDs, or Qualified Charitable Distributions from IRAs in previous issues of the newsletter. After ten years of temporary status, QCDs became a permanent element of the tax law just a few years ago under the Protecting Americans from Tax Hikes (PATH) Act of 2015. The features of this provision allow IRA account owners over the age of 70½ to make charitable contributions directly from their IRAs, eliminating the need to claim the distributions first as income and then as deductions.

You can use IRA Checkwriting for non-charitable purposes, but those would be taxable distributions with no withholding

Eligibility for Schwab IRA Checkwriting:

- Traditional IRAs, Rollover IRAs, Roth IRAs (Roth accounts must be open for a minimum of 5 years)
- Simple IRAs and SEP IRAs (account must be open for a minimum of 2 years)
- You must be age 59½ or older
- You must be a U.S. citizen or a U.S. resident alien who resides within the U.S. or one of its territories (excluding Guam), and must provide a U.S. mailing address

Don't forget, QCDs can count towards your annual Required Minimum Distributions. QCDs are still reported on your 1099, but don't count towards taxable income when you fill out your 1040. You can use IRA Checkwriting for non-charitable purposes, but those would be taxable distributions with no withholding; in the end you are responsible for any taxes due so please discuss this with your tax professional before getting started.

If you would like to request an IRA checkbook or you have questions, please contact us. Schwab's IRA Checkwriting Application form is required to add this feature to your account.

*Checks must be cashed by December 31st to qualify for that tax year, so don't wait until the last minute when using IRA Checkwriting. Please note that unlike a traditional checking account, IRA Checkwriting is not intended to support a high frequency of transactions. If you write more than five checks in a rolling 30-day period, Schwab will send a courtesy communication reminding you that they may remove the feature from your account if the situation persists.

You may have noted the updates to our Roffman Miller logo and the look of the newsletter.

We hope you enjoy the changes!

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Wealth Management

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