Roffman Miller
Wealth Management

Ignoring the Noise

Long-time Roffman Miller Newsletter readers know that I often like to quote Warren Buffett.

Warren is one of many famous investors who I've studied over the years. I also like to learn from investors like Benjamin Graham, Peter Lynch, Shelby Davis, Charlie Munger, Jean-Marie Eveillard, Mason Hawkins, Charles de Vaulx, Peter Miller and others. There are some commonalities amongst all of these legendary investors. They all believed successful investors need to keep their emotions in check, ignore forecasts, don't time the market, look at corrections as buying opportunities, be patient and think long-term. All of these investment themes have dotted the lines of our Newsletter over the years. At times our advice may seem redundant. Our advice however is consistent.

Bob Hofmann
President

Today we live in a world where the news cycle is 24 hours and information is right at our finger tips. Some may argue that this is a bad thing, while others would say that it's a good thing. Either way, we can't put the genie back in the bottle and reverse the advancements in technology. For better or worse the media is in a constant battle for ratings and the competition has ballooned. If we look at traditional news sources like network TV and radio the competition has grown dramatically. Just think about how many TV channels you have now versus twenty years ago. Now add in websites, blogs, Twitter and social media and the amount of information is overwhelming. We all know that good news doesn't sell as well as bad news. As a result the numerous news outlets are flooding our lives with negative headline after negative headline.

I've been in this industry now for over 25 years. When I began the DOW was around 3,100. During my career not a single month went by without someone giving me a reason not to invest in the stock market. Although the short-term is completely unpredictable the long-term is very predictable. At Roffman Miller we're long-term optimistic investors. We believe in capitalism and a constantly evolving society. We believe the future will be brighter than it is today and future generations will continue to innovate, prosper and make this world a better place. As my partner Mark has said: there is an upward bias towards progress in humanity. Moreover, we don't think about the market per se. We tend to think about owning individual businesses, not the market as a whole. For instance when I see 3M stock I don't think about the price it's trading at today. I think about the more than 90,000 employees who go to work every day to make 3M a better company. I also think about what 3M can achieve in five and ten years. It's the long-term view that truly matters but today the media has a short-term focus. Warren Buffett once said: "The stock market is a device to transfer money from the impatient to the patient." I believe this to be true.

I can't tell you how many great stocks I've owned over the last 25 years where short-term headlines would have prompted an ill-advised sale. For example many investors were frustrated with Microsoft in 2013 after years of stagnation. In 2013 Microsoft was about $27 a share. Today it's trading north of $100 a share and long-term investors received significant dividends along the way. There were also major concerns about Home Depot in 2009. In the midst of the worst housing crisis in history many investors questioned the wisdom of owning a home improvement retailer. Back then Home Depot was about $24 a share and today it trades around $200. When I first joined Roffman Miller in the summer of 2004 one of our stocks was constantly in the headlines.

RPM International was funding an asbestos trust fund. The lawsuits surrounding asbestos were dominating the headlines and many investors were punishing RPM. The stock was trading around $14 a share back then and although Roffman Miller had owned the stock for many years, this stock was new to me. Today the stock trades around $50 a share and it's increased its annual dividend every year for 44 consecutive years. These are just a few of many examples that I can mention.

In this Twitter world that we live in I can understand how it's easy to get caught up in the headlines. In my opinion success will come to patient long-term investors who can think in terms of years not days. I'll leave you with one last quote: "Waiting helps you as an investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that." (Charlie Munger)

outlook

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Choosing Your Beneficiary Designations: Per Stirpes vs Per Capita

I recently helped new clients complete Schwab paperwork which included designating their beneficiaries.

I found myself searching for a simple way to explain the distinction between *per stirpes* and *per capita*. This is one of those subjects that is best explained with examples. Hopefully this article will help clear up any confusion.

LET'S START WITH A FEW BENEFICIARY BASICS.

- The beneficiary form supersedes your will, for both taxable and retirement accounts
- The Schwab form allows you to enter a percentage next to each beneficiary. However, if you leave this blank Schwab assumes you are leaving an equal amount to each beneficiary
- Without choosing a *per stirpes* or *per capita* distribution, if you have multiple primary beneficiaries and one dies then the surviving primary beneficiaries equally share the deceased's portion (potentially leaving out the children of a primary beneficiary)

If you are married you will probably list your spouse as 100% primary beneficiary and if you have children list them as contingent beneficiaries. If you're not married and have children you will most likely list them as primary beneficiaries.

When looking at the last bullet point above and thinking about your beneficiaries, if that is not how you would want your assets to be distributed then you may prefer the *per stirpes* or *per capita* options. Let's look at an example of an IRA account owner who has three children and five grandchildren:

Example 1: Grandmom lists her three children (Abby, Billy, and Charlie) as primary beneficiaries with each receiving 1/3, but Abby predeceases her.

Outcome 1A: Neither Per Stirpes nor Per Capita

NEITHER PER STIRPES NOR PER CAPITA					
ABBY-DECEASED		BILLY			CHARLIE
0		1/2			1/2
Grandchild 1	Grandchild 2	Grandchild 1	Grandchild 2	Grandchild 3	No Grandchildren
0	0	0	0	0	0

Billy and Charlie each receive half of the account's assets. Abby's children receive nothing, which often is not the desired outcome.

Outcome 1B: Per Stirpes or Per Capita

PER STIRPES OR PER CAPITA					
ABBY-DECEASED		BILLY			CHARLIE
1/3		1/3			1/3
Grandchild 1	Grandchild 2	Grandchild 1	Grandchild 2	Grandchild 3	No Grandchildren
1/6	1/6	0	0	0	0

Abby's children share her 1/3 of the account, dividing it equally, and Billy and Charlie each receive 1/3.

The end result is the same under *per stirpes* or *per capita* distribution as long as at least one of grandmom's children (the primary beneficiaries) is still alive.

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Urgent:

Fraudulent emails that appear to be from Schwab

In a new wave of phishing attempts, you may receive fraudulent emails that appear to be sent by Schwab. We have seen several variations, but the most common email references e-payment and security notices

The emails typically contain a link to a legitimate-looking Schwab website and prompt the recipient to provide credentials and other personal information. Schwab would never ask clients to provide information by email. They are diligently working to have all linked websites shut down immediately.

WHAT TO DO?

IF YOU RECEIVE AN EMAIL:

- DO NOT to click on links within the email or provide any personal information.
- Send us a copy of the email *as an attachment*, if possible.
- After sending a copy, delete the email.

Split feelings about the second half of 2018

What's the last big stock split that you can remember?

Mark Frombach
Chief Investment Officer

Was it Apple Inc.'s 7-for-1 split back in June of 2014? If you can't think of anything more recent, it's probably because stock splits have occurred far less frequently over the past ten years.

Stock splits are when a company increases the number of shares without changing the value of the company. For example, an investor with one share of stock priced at $100 before a 2-for-1 split would end up with two shares priced at $50 each after the split – in each case, the investor has $100 worth of stock. You might ask, then, why would a company do this if there is no net result?

There are several reasons companies split their stock, but it seems the main reason companies historically have split stocks is to make the shares more accessible for individual investors. To understand this, you'll need to understand that commissions for stock trades were not always as low as $4.95 (today's commission rate at Charles Schwab). In fact, for most of the history of the New York Stock Exchange (and its predecessor), going back nearly 200 years, trading commissions were fixed and determined by the exchange itself. Investors paid 2% of the total trade (or more) in commissions whether they bought 100 shares or 10,000 shares. Some of you probably remember, but other readers can only imagine, paying hundreds of dollars for a single trade commission. To make matters worse, investors were punished with even higher commission rates for buying fewer than 100 shares (a round lot). This system produced individual investors interested in low-priced stocks that could be bought in round lots (a mindset that is persistent still today) to minimize costs. Companies responded by frequently splitting their stocks to keep prices low and accessible to investors.

Today, market trading is dominated by institutional investors. While companies still care about the individual investors, they also realize that lower stock prices lead to more frequent trading and hence more volatility. It is my opinion that companies now believe that high stock prices project stability, and therefore prices have been allowed to run higher. This has shown up in the number of stock splits: there have been an average of 11 stock splits in the S&P 500 each year over the past ten years, compared to an average of over 40 per year since 1980. In 2017, there were five. 2018 has yielded two so far.

One company we follow, Exponent Inc, split 2-for-1 earlier this year. Exponent is a small consulting company with above-average growth, the type that rewards employees heavily with company stock. In this situation companies may still split their stock frequently to ensure that there is sufficient liquidity and I believe this is the case with Exponent.

Another reason companies split shares today is to create different share classes. Classes are typically defined by a letter: A, B, C, etc. Shares of each class have the same claim to the company's profits, but they come with different rights – typically voting rights. 2014 was not only the year that Apple last split, it was also the year that Google's parent, Alphabet, split into A, B, and C shares, giving founders Sergey Brin and Larry Page, as well as then-CEO Eric Schmidt, control of the company through voting rights of Class B stock. At times this concentration of company control is a concern, but for some investors owning the stock is a vote of confidence in the founders and visionaries and the lack of voting rights is a risk they are willing to take.

Another common stock with multiple share classes that trades predominantly in non-voting shares is McCormick; the shares with voting rights do trade publicly, but very infrequently. Those shares are held mainly by McCormick employees and retirees and are part of a larger plan to thwart unwanted takeovers.

Speaking of McCormick, one of the companies we highlighted here in the newsletter a few years back, they just reported an outstanding quarter. Sales grew 19.1% in the most recent quarter and earnings per share, adjusted for the impact of last year's federal tax overhaul, were up 31%. That news drove the stock up over 8% in one day, and 17% for the year so far in 2018. About a year ago McCormick raised $500 million through a stock sale, increasing the number of shares outstanding. Normally, investors don't like stock sales since they dilute our profits. But in this case the company was using the proceeds to help fund a $4.2 billion purchase of RB Foods, the maker of French's mustard and Frank's Hot Sauce. So far that move seems to be working out well.

There have been many articles written recently about the aging bull market, now in its tenth year, and the opinions on its further longevity are split. I'm optimistic about the opportunities we have ahead of us. I realize the market risks are higher than they were a few years ago; stock prices are higher, personal and corporate debt levels are higher. But overall, stock prices reflect optimism and not speculation, and debt ratios are not abnormal. Echoing the sentiment of Bob's cover article, we will continue to look for well-managed businesses that keep their eye on the longer term picture.

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Example 2: Grandmom lists her three children (Abby, Billy, and Charlie) as primary beneficiaries and all three predecease her.

Outcome 2A: Neither Per Stirpes nor Per Capita

NEITHER PER STIRPES NOR PER CAPITA		
ABBY-DECEASED	BILLY-DECEASED	CHARLIE-DECEASED
Contingent beneficiaries receive assets as specified on the form. If there are no contingent beneficiaries the assets would be distributed according to grandmom's will.		

Outcome 2B: Per Stirpes

PER STIRPES					
ABBY-DECEASED		BILLY-DECEASED			CHARLIE-DECEASED
1/2		1/2			0
Grandchild 1	Grandchild 2	Grandchild 1	Grandchild 2	Grandchild 3	No Grandchildren
1/4	1/4	1/6	1/6	1/6	0

Since only two of the three children have children, the estate is divided 50/50. Abby's children receive equal portions of her half, and Billy's receive equal portions of his half.

Per stirpes is Latin for "by branch" or "by root". As you can see in this example, each surviving branch of the family receives their designated share of the estate, and then each branch receives an equal amount of Charlie's share.

The disparity between Abby's and Billy's children would be much greater if Abby had one child (receiving 1/2) and Billy had five children (each receiving 1/10).

Outcome 2C: Per Capita

PER CAPITA					
ABBY-DECEASED		BILLY-DECEASED			CHARLIE-DECEASED
Grandchild 1	Grandchild 2	Grandchild 1	Grandchild 2	Grandchild 3	No Grandchildren
1/5	1/5	1/5	1/5	1/5	0

In this example the entire account is divided by the number of grandchildren. Per capita is Latin for "by head", so each "head" receives an equal amount.

This is an important distinction and should be specified as to whether the children of each primary beneficiary are simply to take their parent's share, divided equally among the children of that particular parent (per stirpes), or whether all of the children of all of the deceased primary beneficiaries are to share equally in the combined shares of their deceased parents (per capita).

For purposes of Schwab's beneficiary forms, the term "children" refers to natural or legally adopted children; stepchildren are not legally defined as children. Also, the definition of per stirpes and per capita shown on the Schwab forms may differ from the definition of per stirpes and per capita under your state's laws and/or your will or trust.

Please contact your advisor if you would like to update your beneficiaries or if you have any questions about this article.

Kevin Cooke, CFP®
Investment Manager

Add a Trusted Contact Person to your account(s)

We have recently begun to ask clients for an emergency contact to use in case we cannot get in touch with you. Along the same lines, Schwab has now introduced the Trusted Contact Person. This new option for Schwab accounts is something you should consider as part of your Retirement, Elder and Estate planning. A Trusted Contact Person is a resource Schwab or Roffman Miller may contact on your behalf, if necessary, to address concerns regarding potential fraud, financial exploitation or other issues related to your account(s) when we cannot reach you or we believe you may be exhibiting self-destructive financial behaviors. Schwab has created a centralized team to work with us to address these concerns.

We recommend adding a Trusted Contact Person to your account(s). Please note that your Trusted Contact will replace your emergency contact if you have one on file at Roffman Miller (although it may be the same person). We may contact you by mail - but you can also log-in at Schwab.com and add your Trusted Contact(s) in the My Profile section. If you have any questions please call your Advisor.

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