Roffman Miller
Wealth Management

outlook

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U.S. Economy is Booming, Rest of the World Not So Much

A healthy global economy is in everyone's best interest and I hope the rest of the world catches up

Ever since the great recession of 2008, our economy has been steadily improving. The unemployment rate in the U.S. is now below 4%. This sub 4% number doesn't print very often - since 1970 there have been only five months where unemployment was this low. During this recovery the only thing that was missing was wage growth. Since the U.S. is a consumer driven economy, wage inflation is incredibly important. But wage growth is finally showing some signs of life as nominal hourly earnings increased by 3.2% over the last 12 months. This is a great sign and hopefully it's the beginning of new trend. As paychecks increase, this new-found money will be circulated throughout our economy and the multiplier effect will help to boost GDP. The recovery has translated into great stock market returns because of the real economic effects: corporate balance sheets, share repurchases, dividend increases, revenues and earnings have never looked better. There is no reason for me to think that this can't continue for the foreseeable future.

Bob Hofmann
President

U.S. GDP growth is currently 4.1% which is incredible when compared to the U.K. and the Eurozone where GDP growth is only 1.5%. Emerging economies are far worse than the developed nations. The MSCI emerging market index is down over 20% year to date. Meanwhile, higher interest rates in the U.S. are attracting capital from all over the world. The Federal Reserve has been raising interest rates in an attempt to bring rates back to more normal levels. This normalization process has had an adverse effect on emerging market currencies - the U.S. dollar has rallied and emerging market currencies have fallen. To make matters worse, most emerging economies have a lot of dollar denominated debt. As their currencies fall in value relative to the dollar it makes it very difficult to repay their dollar denominated obligations. Interest rates in the U.S. are likely to continue to increase. Federal Reserve chair Jerome Powell hinted that low unemployment and our strong economy will prompt further rate increases. In 2014 the U.S. Federal Funds Rate was only .25%. Today the rate is 2% and it could very well reach 3% by the end of 2019.

Many clients have asked about the impact of a trade "war" with China and Canada. In my opinion these trade disputes are only temporary. The fact is we need world trade. Our unemployment rate is below 4%. It's impossible for the U.S. to produce all of its own goods. We don't have enough people to work the factories. As a result, we need the workforce of the world to provide for our consumer driven economy. I do believe that companies will begin to rethink their supply chains. As a result we'll become less dependent on China and U.S. business will continue to distribute their operations elsewhere in the world. In the long run this is probably a good thing. I think we'll continue to work with China for the foreseeable future; however, longer-term, other countries will gain ground on China. At some point I believe that all of our differences will get worked out and world trade will normalize. (editor's note: since Bob submitted this article, the U.S has reached a trade accord with Canada)

Last month the Argentinian Central Bank raised interest rates to 60% and its Peso has fallen more than 50% this year. They're hoping this move will help to stabilize their plunging currency. This year the Turkish Lira has fallen almost 40% to its lowest level in history and the inflation rate is 18%. In India the Rupee is also at an all-time low. In Iranian currency the Rial is down 60% this year. Moreover, the Indonesian Rupiah is at a 20-year low. This year the South African Rand, the Russian Ruble and the Brazilian Real are each down 15% to 20%. In 2013 the socialist autocrat Nicolas Maduro took office in Venezuela. Since then he raised the minimum wage 24 times, most recently 3,000% to 1,800 bolivars a month (which is about $20). Maduro devalued the currency so much that it's practically worthless. He's taken five zeros off the denomination, and today 50 Bolivars equal 5 million of the old Bolivars. The country is experiencing hyper-inflation and is in the midst of an economic depression.

The U.S. economy is doing well, but many areas in the rest of the world are really struggling. Our investment philosophy is focused primarily on U.S. companies. As a result the economic woes of the world haven't adversely affected our portfolio in any significant way. A healthy global economy is in everyone's best interest and I hope that the rest of the world plays catch-up over the next decade.

Getting Your Personal Finances in Shape for 2019

Fall is a good time to assess where you stand and where you could be

Provided by Lori Hartman

You need not wait for 2019 to plan improvements to your finances. You can begin now. The last few months of 2018 give you a prime time to examine critical areas of your budget, your credit, and your investments.

You could work on your emergency fund (or your rainy day fund). To clarify, an emergency fund is the money you store in reserve for unforeseen financial disruptions; a rainy day fund is money saved for costs you anticipate will occur. A strong emergency fund contains the equivalent of a few months of salary, maybe even more; a rainy day fund could contain as little as a few hundred dollars.

Optionally, you could hold this money in a high-yield savings account. A little searching may lead to a variety of choices; here in September, it is not hard to find accounts offering 1.5% or more annual interest, as opposed to the common 0.1% or less. Remember that a high-yield savings account is intended as a place to park money; if you make regular deposits and withdrawals to and from it and treat it like a checking account, you may incur fees that diminish the savings progress you make.[1]

Review your credit score. Federal law entitles you to a free copy of your credit report at each of the three nationwide credit reporting firms (Equifax, TransUnion, and Experian) every 12 months. Now is as good a time as any to request these reports; visit annualcreditreport.com or call 1-877-322-8228 to order them. At the very least, you will learn your credit score. You may also detect errors and mistakes that might be harming your credit rating.[2]

Think about the way you are saving for major financial goals. Has your financial situation improved in 2018, to the extent that you could contribute a little more money to an IRA or a workplace retirement plan now or next year? If you are not contributing enough at work to receive a matching contribution from your employer, maybe now you can.

Also, consider the way your invested assets are held. What are your current and future allocations? Some people have heavy concentrations of equities in their workplace retirement plan, IRA, or brokerage account due to Wall Street's long bull market. If this is true for you, there may be some pain when the next bear market begins. Check in on your portfolio while things are still bullish.

Can you spend less in 2019? That might be a key to saving more and putting more money into your rainy day or emergency funds. If your pay has increased, your discretionary spending does not necessarily have to increase with it. See if you can find room in your budget to possibly cut an expense and redirect the money into savings or investments.

You may also want to set some near-term financial goals for yourself. Whether you want to accomplish in 2019 what you did not quite do in 2018, or further the positive financial trends underway in your life, now is the time to look forward and plan.

Citations.
1 - thesimpledollar.com/best-high-interest-savings-accounts/ [8/31/18]
2 - ftc.gov/faq/consumer-protection/get-my-free-credit-report [9/6/18]

There's nothing like an inheritance to burn a hole in one's pocket

Making a Family Fortune Last

Individuals who've amassed significant assets are often concerned about the longevity of their wealth—and for good reason. Only 30% of affluent families are able to maintain their wealth through the second generation, and only 10% have anything left after the third.

"Anxieties about successfully passing down assets or a family business aren't new," says John Pettee, a Phoenix-based Schwab wealth strategist, "but they're increasingly common"—for the simple reason that some $30 trillion is poised to pass from the Baby Boomers to their heirs over the next several decades, the largest intergenerational transfer of wealth in history.[1]

Despite the range of assets and circumstances, there are three areas on which every family should focus when creating an enduring wealth strategy.

1. COMMUNICATION

Many clients struggle with how much to tell their descendants, especially when heirs are teens or young adults. "It's not uncommon for clients to worry about creating so-called trust-fund babies who treat an inheritance as an excuse to blow off school or work," says Nancy Murphy, a Schwab senior financial planner in Indianapolis.

But John and Nancy both believe disclosing some, if not all, information is the best path forward in most cases, regarding not only the sums at stake but also the structure of an inheritance. Will it be an outright gift? A conditional gift? An irrevocable trust? (See "Passing it on," below.)

"Wealth preservation takes discipline on the part of the next generation," John says. "By communicating the details of an inheritance up front, you give heirs the time they need to fully understand the implications of the gift.

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We love companies that pay dividends and increase those dividends consistently over time

Investing in Quality Companies Increasingly Pays Dividends

At Roffman Miller we love companies that pay dividends and increase those dividends consistently over time. We're not exclusively dividend-oriented, but our long-time clients know that we believe one major aspect of high-quality companies is that they are investor focused and this usually means returning capital to shareholders. Traditionally, once a company is past its "high growth" phase, capital that was once needed to grow the business can be redirected towards shareholders in the form of dividends and stock buybacks.

Mark Frombach
Chief Investment Officer

In the best of both worlds, companies can grow profits at above average rates and pay a dividend – take Apple Inc. as a recent example. Apple generates billions of dollars each month that it doesn't need to keep innovating and growing, so it is aggressively buying its own shares and paying an increasing dividend, all the while growing revenue at a double-digit rate.

A company's board of directors has the discretion of paying a dividend each quarter – it's not automatic, it is deliberated and decided upon each time they meet. For investors the five examples in the table below represent a significant increase in the coming year's income versus the past year. If you held equal amounts of each company's stock, your dividend income just increased 20%. I'll admit, those examples are above my expectations of dividends increasing at the rate of earnings growth (think 5-9% annually). But they bring up the average and even average increases are more than Social Security or your pension will give you.

There are high quality companies that do not yet pay a dividend. Think Google parent Alphabet Inc. Some investors feel that paying a dividend will be a sign that their growth phase is over, but I can remember both Microsoft and Apple initiating dividends and it hasn't hurt either company's revenue growth or stock returns.

As Bob mentioned, we predominantly own U.S.-based companies. Most are large and well known, the type we believe will make money in good times and survive the bad times, sometimes consolidating their weaker competition. But we're also interested in "off the radar" companies that meet our investment criteria. VF Corp is one such company.

VF Corporation (symbol VFC) was founded in 1899 as the Reading Glove and Mitten Manufacturing Company. Two decades later the name was changed to Schuylkill Silk Manufacturing to reflect its expansion into silk lingerie, and soon thereafter it adopted the more commonly known name of Vanity Fair Mills. The company went public in 1951 and began paying a dividend in the 1970s, and sometime in between the name was changed again to VF Corporation because of the increasingly diverse product line.

Today VF is a global clothing manufacturing powerhouse with over $12 billion in annual sales, doing business in over 170 countries with more than 70,000 employees across 30 different brands. Five of their brands each contribute over one billion dollars of annual revenue: Vans, The North Face, Timberland, Wrangler, and Lee. Vans is on its way to become VF's first $3 billion brand.

VF is in a very competitive and cyclical business. Roffman Miller first took a look at this company back in 2007, before the financial crisis unfolded. I remember my early opinions of the company focused on the creativity, brands and marketing skills, financial strength, and board commitment to dividends.

Following the 2008 crisis VF and many other clothing manufacturers suffered a steep revenue decline. As sales and profits declined, VF tightened its belt and increased profit margins, earnings per share, and the dividend. Next, they focused marketing efforts on their strongest and most profitable brands, committing an additional $100 million to the 2010 marketing budget, emphasizing both direct-to-consumer sales and International growth by opening more branded retail stores at a time when other retailers were closing their doors.

Management at VF has proven themselves over and over, and current CEO Steve Rendle, 58, is no exception. Rendle has been with the company since 1999 and has assisted in acquiring many of the brands they own today.

VF makes clothing look like a growth business, and the stock reflects that, up almost 300% since those days back in 2007. 40% of sales are in growth markets outside the U.S. The dividend has increased for 45 years in a row and has more than doubled in just the past five years. We are waiting for an announcement of an increase in the upcoming December payment. Because of the recent performance, we have not been aggressively adding the stock to portfolios – but we will keep an eye out for a good entry point.

As Bob mentioned in his letter, wage growth is finally measurable across the U.S. employment spectrum. That's usually an early indicator of inflation – as consumers we can already see it in housing and food costs, and companies tell us they are dealing with input prices rising in almost every conversation we have. Quality companies will be able to adjust, and investors will reap the benefits of even higher returns.

DIVIDEND INCREASES ANNOUNCED IN SEPTEMBER

COMPANY	% DIVIDEND INCREASE	TOTAL INCREASE IN DIVIDEND OVER PAST FIVE YEARS	AVERAGE DIVIDEND INCREASE OVER PAST FIVE YEARS
JPMorgan	43%	125%	17.5%
McDonald's	15%	48%	8.3%
Texas Instruments	24%	187%	23.5%
American Express	11%	68%	11.1%
RPM Inc.	9.4%	45%	7.8%

There's nothing like an inheritance to burn a hole in one's pocket

Making a Family Fortune Last

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without that information, heirs could unwittingly make costly financial decisions from which it can be difficult to recover."

One client Nancy worked with decided to share the details of her estate plan when her granddaughter was about to get married. "The granddaughter didn't fully realize the extent of her inheritance until her grandmother sat her down and said, 'Look, you need to protect yourself,'" Nancy says.

As a result, the granddaughter decided to draw up a prenuptial agreement. "Had the client not had that conversation with her granddaughter, the family's wealth would have been on the line," Nancy says.

2. EDUCATION

There's nothing like an inheritance to burn a hole in one's pocket, which is why educating heirs about responsible money management is so crucial. Without it, young beneficiaries might be tempted to spend frivolously or risk the funds on questionable investment opportunities.

"Unfortunately, there are any number of predatory financial managers and consultants just itching to take advantage of people," Nancy says. "The more knowledgeable heirs are about financial matters, the more prepared they'll be to walk away from 'can't-miss' opportunities."

John adds that education should include not only the fundamentals of investing and saving, but also estate planning and taxes. "There are tax and legal ramifications of different types of trusts—and the more the younger generation understands, the more likely they are to make wise choices," he says.

Another critical component of education is to introduce heirs to the people managing their future assets, including financial advisors, estate planners and trustees. "These people should know each other long before any money changes hands," Nancy says. "That way, they have trusted consultants they can turn to when it's their time to take control of the family wealth."

3. PURPOSE

Finally, both John and Nancy say it's imperative for older generations to establish a sense of purpose for their family wealth. "You want your heirs to see themselves as stewards of an enduring family legacy, not as the sole beneficiaries of your hard work," Nancy says.

One way to accomplish this is through charitable giving, John says. "Families that establish a charitable mission tend to view their assets differently from those who don't," he says."Creating a charitable legacy—whether formally through a private foundation or a donor-advised fund, or informally by talking openly about your values—can help your heirs look beyond their immediate desires to something impactful."

Whatever your values, Nancy says, establishing a common mission—and discussing it regularly—can help ensure your family wealth endures for many generations to come.

[1]The "Greater" Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth, Accenture, 2015.

This article was provided by Charles Schwab and selected by Susan Arnold

Passing it on

How you structure your estate can impact its longevity

- **Outright gift:** Beneficiary receives assets directly and without restriction.
- **Conditional gift:** Beneficiary receives bequest only if certain conditions, such as completing college, are met.
- **Revocable trust:** Grantor transfers assets to trust, while maintaining control and ownership. Often used to transfer assets directly to beneficiaries without delay upon grantor's passing.
- **Irrevocable trust:** Grantor transfers assets to trust and establishes terms for their distribution, while relinquishing control and ownership. Often used to minimize estate taxes and/or provide for family members not equipped to manage assets themselves.
- **Intergenerational philanthropy:** Donor transfers assets into a donor-advised fund (DAF) or private family foundation to establish enduring charitable legacy. Heirs can be named as successor account holders (in the case of a DAF) or board members (in the case of a private foundation) to ensure family's philanthropic values live on.

Roffman Miller
Wealth Management

1835 Market Street, Suite 500
Philadelphia, PA 19103
215.981.1030 / 800.995.1030
Fax 215.981.0146
info@roffmanmiller.com / roffmanmiller.com