Roffman Miller
Wealth Management

outlook

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Reflecting on the year gone by

What A Difference A Year Makes

At the end of the year, like many people, I like to reflect on the year gone by. This year I pulled out the last four quarterly Newsletters and I reread the 2017 annual letter that Warren Buffett wrote to the shareholders of Berkshire Hathaway. In one of our newsletters earlier in the year I wrote about the lack of volatility in the 2017 markets. This excerpt was from our Spring Newsletter:

Bob Hofmann
President

However in 2017 the market had very little downside movement. In fact last year's volatility was the quietest market in terms of volatility since 1964. A recent Morgan Stanley publication citied that the 2017 volatility was "at the very low end of the past 120 years."

In 2018 the markets have gone the other way and volatility came back with a vengeance. John Pierpont Morgan (J.P. Morgan) was one of the most powerful bankers of his time. Legend has it that once he was asked for his stock market prediction for the upcoming year. His answer was short and sweet: "I think it will fluctuate."

Last summer I wrote in our Newsletter about the traits of successful investors according to Warren Buffett: "...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." I often quote Warren because our investment philosophies are so similar. In his 2017 annual letter to shareholders of Berkshire Hathaway, Warren penned, "I view the marketable common stocks that Berkshire owns as interests in businesses, not as ticker symbols to be bought or sold based on their chart patterns, the target prices of analysts or the opinions of media pundits. Instead, we simply believe that if the businesses of the investees are successful (as we believe most will be) our investments will be successful as well. Sometimes the payoffs to us will be modest; occasionally the cash register will ring loudly. And sometimes I will make expensive mistakes. Overall–and over time–we should get decent results." I can't tell you how many times I've heard Peter Miller say the same thing about our investment philosophy. In the same letter Warren recounted four major dips in Berkshire shares:

PERIOD	HIGH	LOW	PERCENTAGE DECREASE
3/1973-1/1975	93	38	(59%)
10/2/87-10/27/87	4,250	2,675	(37%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

During these times he wrote "…your mind may well become rattled by scary headlines and breathless commentary. And an unsettled mind will not make good decisions. The years ahead will occasionally deliver major market declines–even panics–that will affect virtually all stocks." Warren also said that no one can predict when these downturns will occur. He went on to say " investors need not worry about bear markets–or even vicious stock market crashes–as long as they remember two things:

First, widespread fear is your friend as an investor because it serves up bargain purchases. Second, personal fear is your enemy."

Later in his letter Warren wrote: "Though markets are generally rational, they occasionally do crazy things. What investors need instead is an ability to both disregard mob fears or enthusiasms and to focus on a few simple fundamentals. A willingness to look unimaginative for a sustained period–or even to look foolish–is also essential."

Given the extreme volatility in the market today I think we can all use a little advice from Warren. I believe the most successful investors will prepare for bear markets well in advance of the downturn. At Roffman Miller we prepare for these types of markets through asset allocation and diversification. Also our investment process leans heavily on high-quality stocks and bonds. We're not taking big bets in risky areas of the market like emerging market stocks, junk bonds, digital currencies, global bonds, commodities, currencies, hedge funds or alternative investments. Like Warren, in our portfolio we own "interests in businesses." Just as Warren, and all investors, at times we will make mistakes but overtime our collection of businesses should do very well.

The news today is dominated by the Federal Reserve and China trade tensions. The China situation will eventually get resolved. There have been some positive steps with China but it appears a resolution may take a little longer than most people

Are you aware of them?

Tax Considerations for Retirees

Provided by Lori Hartman

The federal government offers some major tax breaks for older Americans. Some of these perks deserve more publicity than they receive.

If you are 65 or older, your standard deduction is $1,300 larger. Make that $1,600 if you are unmarried. Thanks to the passage of the Tax Cuts & Jobs Act, the 2018 standard deduction for an individual taxpayer at least 65 years of age is a whopping $13,600, more than double what it was in 2017. (If you are someone else's dependent, your standard deduction is much less.)[1]

You may be able to write off some medical costs. For 2018, the Internal Revenue Service will let you deduct qualifying medical expenses once they exceed 7.5% of your adjusted gross income. In 2019, the threshold will return to 10% of AGI, unless Congress acts to preserve the 7.5% baseline. The I.R.S. list of eligible expenses is long. Beyond out-of-pocket costs paid to doctors and other health care professionals, it also includes things like long-term care insurance premiums, travel costs linked to medical appointments, and payments for durable medical equipment, such as dentures and hearing aids.[2]

Are you thinking about selling your home? If you have lived in your current residence for at least two of the five years preceding a sale, you can exclude as much as $250,000 in gains from federal taxation (a married couple can shield up to $500,000). These limits, established in 1997, have never been indexed to inflation. If modified for inflation, they would approach $400,000 for singles and $800,000 for married couples.[3,4]

Low-income seniors may qualify for the Credit for the Elderly or Disabled. This incentive, intended for people 65 and older (and younger people who have retired due to permanent and total disability), can be as large as $7,500 based on your filing status. You must have very low AGI and nontaxable income to claim it, though. It is basically designed for those living wholly or mostly on Social Security benefits.[5]

Affluent IRA owners may want to make a charitable IRA gift. If you are well off and have a large traditional IRA, you may not need your yearly Required Minimum Distribution (RMD) for living expenses. If you are 70½ or older, you have an option: you can make a Qualified Charitable Distribution (QCD) with IRA assets. You can donate up to $100,000 of IRA assets to a qualified charity in a single year this way, and the amount donated counts toward your annual RMD. (A married couple gets to donate up to $200,000 per year.) Even more importantly, the amount of the QCD is excluded from your taxable income for the year of the donation.[6]

Some states also give seniors tax breaks. For example, the following 11 states do not tax federal, state, or local pension income: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, New York, and Pennsylvania. Twenty-eight states (and the District of Columbia) refrain from taxing Social Security income.[7]

Unfortunately, your Social Security benefits could be partly or fully taxable. They could be taxed at both the federal and state level, depending on how much you earn and where you happen to live. Whether you feel this is reasonable or not, you may have the potential to claim some of the tax breaks mentioned above as you pursue the goal of tax efficiency.[5,7]

CITATIONS.
1 - fool.com/taxes/2018/04/15/2018-standard-deduction-how-much-it-is-and-why-you.aspx [4/15/18]
2 - aarp.org/money/taxes/info-2018/medical-deductions-irs-fd.html [1/12/18]
3 - loans.usnews.com/what-are-the-tax-benefits-of-buying-a-house [10/17/18]
4 - cnbc.com/2018/08/02/some-home-sellers-would-see-huge-savings-under-treasury-tax-cut-plan.html [8/2/18]
5 - fool.com/taxes/2017/12/31/living-on-social-security-heres-a-tax-credit-just.aspx [12/31/17]
6 - tinyurl.com/y8slf8et [1/3/18]
7 - thebalance.com/state-income-taxes-in-retirement-3193297 ml [8/15/18]

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thought. The stock market in China had a very rough year in 2018. At the time of this writing the Shanghai Composite Index was down 25% making it the worst performing major stock market in the world. Moreover, the Chinese economy has lost a lot of steam over the past year. As a result, Chinese officials look like they're finally serious about reforms in regards to trade practices, foreign business investment and intellectual property theft. Ultimately only time will tell but some positive developments are currently on the negotiating table for the first time.

Throughout history the Fed has raised interest rates in an effort to slow down an overheated economy. Traditionally the Fed would over-do their interest rate increases and a recession would be the result. Today the Fed isn't raising interest rates to slow down the economy. We all know that interest rates are currently near all-time lows. The financial crisis of 2008 brought interest rates around the globe to record lows. When interest rates hover around zero the Fed loses one of its major policy tools. In tough times the Fed will lower interest rates to help reduce borrowing costs in an effort to help spur economic activity.

When rates are at or near zero it doesn't leave any room to lower them further. This time is truly different. The Fed isn't raising interest rates to slow down economic activity; they are simply trying to bring interest rates back to a normal level. This process is called "normalization." Normalizing interest rates is a sign of economic recovery. Once rates are back to normal the Fed will once again have a policy tool at its disposal to utilize when a recession happen. Also, normalizing interest rates will give retirees and savers and opportunity to make money on their safe investments. This normalization process is the right decision in my opinion.

I'd like to wish everyone a happy and healthy New Year!

Bob Hofmann, *President*

Risk and Return

2019 Outlook: More Market Forecasts

Every few years I think it's a good idea to return back to a basic discussion of investment risks. In my mind, investment risks break down as follows:

• *The risk of permanent loss of capital*

• *The risk of not having access to my money when I need it*

While it's plausible that neither of these two situations can be avoided entirely, we do spend a fair amount of energy working with clients to understand the risks we face and how we plan and account for the eventualities that unfortunately play out in the public markets.

Mark Frombach
Chief Investment Officer

Let's talk about permanent loss of capital and the current case of Pacific Gas and Electric company, better known as PG&E. Many investors believe that utilities are a worry-free way to preserve and grow capital over time. My intention here is not to 'pick on' PG&E, but the company represents a current example where shareholders are looking out over the abyss of large permanent losses.

All of us remember the devastating scenes broadcast from the 'Camp' wildfires that virtually destroyed the town of Paradise, California in the fall last year. In 2017, fires also destroyed over 9,000 buildings and homes. We might not remember those fires as well, but stockholders at PG&E do. State officials have found that 17 of the 21 2017 fires in Northern California are linked directly to equipment owned by PG&E. And now there seem to be direct links to Camp fire.

With two large liabilities on their shoulders, PG&E is facing the burden of both keeping the company operating as safely and progressively as possible, plus preparing to meet the challenges of lawsuits, fines, and penalties which PG&E estimates at $30 billion. The company's wild fire insurance coverage for 2018 was $1.8 billion. The stock price has fallen from $70 to $7 over the past five months, and the company is on track to file bankruptcy protection any day now.

Two years ago, not many would have predicted this outcome for PG&E. Occasionally circumstances beyond our control get even further out of control. Many times, good corporate management faces challenging issues and from my experience they do a good job of working through them. But this is not the first time PG&E has run into trouble – in 2001 the company filed for bankruptcy protection that cost PG&E and the state of California an estimated $40 billion. Nor are these wildfires their only disasters. Other fires, gas pipeline failures, and groundwater contamination have cost them billions more over the past decade. This company has a good business (a utility) which carried a high degree of risk that other similar companies don't share (running high voltage power lines through forests of drought-dried tinder) and the unique, variable regulatory environment that we call the state of California. Wary investors might have looked at the situation and decided to invest elsewhere.

Most of the risk we face in markets today is more closely linked to the temporary fluctuations of our account values. A common phrase we hear is "I'm too old to live through another 2008." And as many times as we get the question, "what's my account balance?" at stock market highs, we get the same – no, more – number of "what's my equity allocation?" questions from concerned investors when the markets take a sudden sharp turn downward as they did in December 2018.

Markets are volatile. That's something we all need to accept when we agree to become investors. And even professional investors don't know what will cause the next market turn, or whether that turn will be up or down. Even so, over my entire career I have not seen so many predictions and 'Market Outlook' reports as we have run across for 2019. It's a sign that people are looking for answers to the volatility of late 2018, and Wall Street is sparing no ink in an effort to fill that information void. But the reality is that no one really knows how things will play out.

Some of the factors affecting 2019 are economic. The US economy is not projected to grow as fast as it did in 2018, whether due to exhaustion, lack of stimulus, trade tariffs... it doesn't matter why, only that the economy will probably grow more slowly and this has an effect on the two things that affect your stock prices: earnings and optimism about the future.

Other things affecting the markets both here and around the world are the China trade talks, the rapidly approaching Brexit deadline and Parliament's inability to agree to a plan, and the upcoming US Presidential election. Each of those political events on its own could create ripples through global financial markets; how can anyone factor a combination of them into a single stock market forecast?

I had to go back and re-read Bob's cover letter at this point to make sure I wasn't being too repetitive, but that is part of the point here – we have a consistent approach and we want to reinforce it in good times and bad. Stick with high quality investments. Diversify. Plan for liquidity, especially if you are at or near retirement. And believe the plan you have will get you through the volatile markets, otherwise review the plan and come up with one that will. Companies will find ways to grow and thrive in nearly any environment.

It is interesting to note that if you had invested in the fall of 2007, about the time the market peaked ahead of the 2008-2009 market tumble, and just remained fully invested in stocks through today you would have earned something north of 6% average annual return. Armed with that information, I believe we can live through another 2008. More importantly however, this is a reminder to meet with us and review your plan, inform us of any changes in your life, make sure your investment plan is still suitable, and make any necessary adjustments. As always, we appreciate your trust and confidence and I look forward to hearing from you in 2019.

Mark Frombach, *Chief Investment Officer*

Cyber criminals exploit our increasing reliance on technology.

Tips for preventing fraud

Cybercrime and fraud are serious threats and constant vigilance is key. While our firm plays an important role in helping protect your assets, you can also take action to protect yourself and help secure your information. This checklist summarizes common cyber fraud tactics, along with tips and best practices. Many suggestions may be things you're doing now, while others may be new. We also cover actions to take if you suspect that your personal information has been compromised. If you have questions, we're here to help.

Cyber criminals exploit our increasing reliance on technology. Methods used to compromise a victim's identity or login credentials – such as malware, phishing, and social engineering – are increasingly sophisticated and difficult to spot. A fraudster's goal is to obtain information to access to your account and assets or sell your information for this purpose. Fortunately, criminals often take the path of least resistance. Following best practices and applying caution when sharing information or executing transactions makes a big difference.

How we can work together to protect your information and assets

Safe practices for communicating with our firm

- Keep us informed regarding changes to your personal information.
- Expect us to call you to confirm email requests to move money, trade, or change account information.

How Schwab protects your account

Schwab takes your security seriously and leverages protocols and policies to help protect your financial assets. Below are actions you can take to reinforce their efforts and resources to assist you in keeping your account safe:

- Confirm your identity using Schwab's voice ID service when calling the Schwab Alliance team for support.
- Use two-factor authentication, which requires you to enter a unique code each time you access your Schwab accounts.
- Review the Schwab Security Guarantee, which covers 100% of any losses in any of your Schwab accounts due to unauthorized activity.

To learn more, visit Schwab's Client Learning Center.

What you can do

- Be aware of suspicious phone calls, emails, and texts asking you to send money or disclose personal information. If a service rep calls you, hang up and call back using a known phone number.
- Never share sensitive information or conduct business via email, as accounts are often compromised.
- Beware of phishing and malicious links. Urgent-sounding, legitimate-looking emails are intended to tempt you to accidentally disclose personal information or install malware.
- Don't open links or attachments from unknown sources. Enter the web address in your browser.
- Check your email and account statements regularly for suspicious activity.
- Never enter confidential information in public areas. Assume someone is always watching.

Exercise caution when moving money

- Leverage our electronic authorization tool to verify requests. Featuring built-in safeguards, this is the fastest and most secure way to move money.
- Review and verbally confirm all disbursement request details thoroughly before providing your approval, especially when sending funds to another country. Never trust wire instructions received via email.

Adhere to strong password principles

- Don't use personal information as part of your login ID or password and don't share login credentials
- Create a unique, complex password for each website, Change it every six months. Consider using a password manager to simplify this process.

Maintain updated technology

- Keep your web browser, operating system, antivirus, and anti-spyware updated, and activate the firewall.
- Do not use free/found USB devices. They may be infected with malware.
- Check security settings on your applications and web browser. Make sure they're strong.
- Turn off Bluetooth when it's not needed.
- Dispose of old hardware safely by first performing a factory reset or removing and destroying all storage data devices.

Use caution on websites and social media

- Do not visit websites you don't know (e.g., advertised on pop-up ads and banners).
- Log out completely to terminate access when exiting all websites.
- Don't use public computers or free Wi-Fi. Use a personal Wi-Fi hotspot or a Virtual Private Network (VPN).
- Hover over questionable links to reveal the URL before clicking. Secure websites start with "https," not "http."
- Be cautious when accepting "friend" requests on social media, liking posts, or following links.
- Limit sharing information on social media sites. Assume fraudsters can see everything, even if you have safeguards.
- Consider what you're disclosing before sharing or posting your résumé.

What to do if you suspect a breach

- Call our office or your Schwab Alliance team immediately at 800-515-2157 so that they can watch for suspicious activity and collaborate with you on other steps to take.

Learn more

Visit these sites for more information and best practices:

- StaySafeOnline.org: Review the STOP. THINK. CONNECT™ cybersecurity educational campaign.
- OnGuardOnline.gov: Focused on online security for kids, it includes a blog on current cyber trends.
- FDIC Consumer Assistance & Information, https://www.fdic.gov/consumers/assistance/index.html.
- FBI Scams and Safety provides additional tips, https://www.fbi.gov/scams-and-safety.

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