Roffman Miller
Wealth Management

outlook

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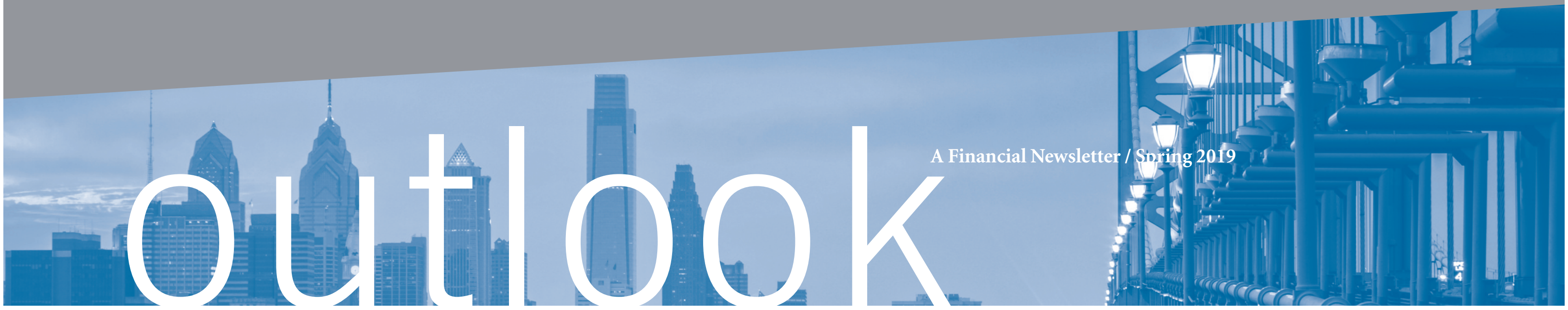

In calendar year 2018 the FOMC hiked interest rates four times.

The Fed Does an About-face

In calendar year 2018 the Federal Open Market Committee (FOMC) hiked interest rates four times. In December of last year the FOMC signaled two rate hikes coming in 2019. This March, however, the FOMC did a complete about-face. They're now expecting no additional rate hikes for 2019 and only one 25 basis point increase for 2020. This is a sure sign that the Fed is trying to do everything in its power to maintain the current expansion for both the economy and the markets. This dovish stance took the markets by surprise. Why the drastic change in policy in only a short few months? After all, the US economy is still doing very well; unemployment is near an all-time low, energy prices have fallen, putting more money in consumers' pockets, and the inflation data is incredibly tame. Unemployment in the US recently reached its lowest level in forty-nine years and the US economy added jobs for the 100th consecutive month. The Fed's change in direction certainly isn't in response to a floundering US economy or in response to a faltering financial industry. The US banking system is strong and extremely well capitalized. So what prompted the change in direction?

Bob Hofmann
President

In my opinion there are a couple factors that prompted this policy shift. First and foremost I think the trade war is worrying the Fed. The ongoing trade war with China is certainly curtailing global economic growth. Recently slowing economies in China and Europe have spooked investors. I believe the slowing global economy is very real but also very temporary. Ultimately I think the US and China will come to some sort of agreement on trade and protection for intellectual property rights. It's conceivable that we'll have an agreement sometime this year. Once an agreement is in place I believe tensions will subside and the world economies will normalize. In addition to trade I think the markets were concerned about corporate earnings growth given that the tail winds of the Trump tax cuts are behind us. To fuel this fear further, several CEOs warned that the trade war was hurting demand. Once again I view these to be temporary episodes. Long-term investors will ultimately be rewarded for their discipline and patience.

It seems like everywhere you look the news media is talking about a pending recession. This has to be the most anticipated recession in history. Since 1940 there have been 11 recessions and on average they lasted 11 months. Having a recession is a normal part of the business cycle and it doesn't mean the end is near. Unfortunately we're all too close to the great recession that took place in 2008 and that is front and center in our minds. In reality, recessions of that severity are exceedingly rare. As the chart below indicates, in six of the eleven recessions the S&P 500 actually had a positive return. In general the six month period before a recession is where we experienced the most pain. However, even in this time period the median loss was only 5.5%. Historically, trying to predict when a recession would occur has proved to be a very difficult task. In 1966 a well-known economist named Paul Samuelson joked that the stock market had predicted nine of the last five recessions. Sure, at times the market

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RECESSION			S&P 500 (PRICE RETURN)	
Start	End	Duration	During Recession	1 to 6 months
Nov. 30, 1948	Oct. 31, 1949	11	9%	-12%
July 31, 1953	May 31, 1954	10	18%	-6%
Aug. 31, 1957	April 30, 1958	8	-4%	5%
April 30, 1960	Feb. 28, 1961	10	17%	-5%
Dec. 31, 1969	Nov. 30, 1970	11	-5%	-6%
Nov. 30, 1973	March 31, 1975	16	-13%	-9%
Jan. 31, 1980	July 31, 1980	6	7%	10%
July 31, 1981	Nov. 30, 1982	16	6%	1%
July 31, 1990	March 31, 1991	8	5%	8%
March 31, 2001	Nov. 30, 2001	8	-2%	-19%
Dec. 31, 2007	June 30, 2009	18	-37%	-2%
	AVERAGE	11	0.0%	-3.2%
	MEDIAN	10	5.4%	-5.5%
	% POSITIVE		55%	36%

A convenient move that could ward off probate on your accounts.

The Importance of TOD & JTWROS Designations

Provided by Lori Hartman, Investment Manager

TOD, JTWROS – what do these obscure acronyms signify? They are shorthand for *transfer on death* and *joint tenancy with right of survivorship* – two designations that permit automatic transfer of bank or investment accounts from a deceased spouse to a surviving spouse.[1]

This automatic transfer of assets reflects a legal tenet called the right of survivorship – the idea that the surviving partner should be the default beneficiary of the account. In some states, a TOD or JTWROS beneficiary designation is even allowed for real property.[2]

When an account or asset has a TOD or JTWROS designation, the right of survivorship precedes any beneficiary designations made in a will or trust.[3]

There are advantages to having TOD and JTWROS accounts – and disadvantages as well.

TOD & JTWROS accounts usually avoid probate. As TOD and JTWROS beneficiary designations define a direct route for account transfer, there is rarely any need for such assets to be probated. The involved financial institution has a contractual requirement (per the TOD or JTWROS designation) to pay the balance of the account funds to the surviving partner.[4]

In unusual instances, an exception may apply: if the deceased account owner has outlived the designated TOD beneficiary or beneficiaries, then the account faces probate.[5]

What happens if both owners of a JTWROS account pass away at the same time? In such cases, a TOD designation applies (for any named contingent beneficiary).[4]

To be technically clear, *transfer on death* signifies a route of asset transfer, while *joint tenancy with right of survivorship* signifies a form of asset ownership. In a variation on JTWROS called tenants by entirety, both spouses are legally deemed as equal owners of the asset or account while living, with the asset or account eventually transferring to the longer-living spouse.[4]

Does a TOD or JTWROS designation remove an account from your taxable estate? No. A TOD or JTWROS designation makes those assets non-probate assets, and that may save your executor a little money and time – but it doesn't take them out of your gross taxable estate.

In fact, 100% of the value of an account with a TOD beneficiary designation will be included in your taxable estate. It varies for accounts titled as JTWROS. If you hold the title to a JTWROS account with your spouse, 50% of its value will be included in your taxable estate. If it is titled as JTWROS with someone besides your spouse, the entire value of the account may go into your taxable estate, unless the other owner has made contributions to the account.[6]

How about capital gains? JTWROS accounts in common law states typically get a 50% step-up in basis upon the death of one owner. In community property states, the step-up is 100%.[6]

Could gift tax become a concern? Yes, if the other owner of a JTWROS account is not your spouse. If you change the title on an account to permit JTWROS, you are giving away a percentage of your assets; the non-spouse receives a gift from you. If the amount of the gift exceeds the annual gift tax exclusion, you will need to file a gift tax return for that year. If you retitle the account in the future, so that you are again the sole owner, that constitutes a gift to you on behalf of the former co-owner; they will need to file a gift tax return if the amount of the gift tops the annual exclusion.[6]

TOD & JTWROS designations are designed to make account transfer easy. They simplify an element of estate strategy.

TOD or JTWROS accounts are not cheap substitutes for wills or trusts. If you have multiple children and name one of them as the TOD beneficiary of an account, that child will get the entire account balance, and the other kids will get nothing. The TOD beneficiary can of course divvy up those assets equally among siblings, but in doing so, that TOD beneficiary may run afoul of the yearly gift tax exclusion.6

As you create your estate, respect the power of TOD & JTWROS designations. Since they override any beneficiary designations made in wills and trusts, you want to double-check any will and trust(s) you have, to make sure that you aren't sending conflicting messages to your heirs.[6]

That aside, TOD & JTWROS designations can represent a convenient way to arrange the smooth, orderly transfer of account balances when original account owners pass away.

CITATIONS.

1 - finra.org/industry/terms-and-acronyms [9/26/18]
2 - investopedia.com/terms/j/jtwros.asp [12/20/18]
3 - thebalance.com/why-beneficiary-designations-override-your-will-2388824 [12/19/18]
4 - washingtonpost.com/business/2018/11/12/transfer-death-deed-may-be-good-instruent-leaving-your-home-your-child-beware flaws/?noredirect=on&utm_term=.3162fd5503c9 [11/12/18]
5 - thebalance.com/what-is-a-transfer-on-death-or-tod-account-3505253 [12/30/18]
6 - investopedia.com/articles/pf/08/joint-tenancy.asp [3/20/18]

It was the Worst Month for Stocks Since 1931. It's the Best Start to the Year Since 1998.

Those are two actual Dow Jones headlines, 30 days apart in early 2019, describing the US stock market. To me, they read like an example of Orwellian Doublethink, where investors suspend cognitive dissonance and somehow believe the US is both in a robust trajectory of growth and spiraling towards economic recession all at once.

Mark Frombach
Chief Investment Officer

Roffman Miller has a history of eschewing headlines in favor of looking further down the road. Examples abound in our past and current portfolios: at one point in time (several points, really) people thought that McDonald's would never survive because of its unhealthy menu. Amazingly, the company is bigger than ever and the stock has more than tripled over the past ten years. Likewise, Microsoft was left for dead under former CEO Steve Ballmer. That stock has tripled in just the past five years. More recent examples include FedEx fending off a potential challenge from Amazon in the shipping business, or Disney entering the streaming business in the shadow of Netflix. All companies face challenges and uncertainties, but those with excellent management, great products and services, and financial strength can thrive in the marketplace.

We trust good management to deal with those challenges; just because we don't react to the daily headlines, that doesn't mean we lack issues to worry about in the near-term. Interest rates are extremely low, hurting all of us who seek a safe return in high quality bonds. And there are many hot spots around the world that we temporarily forget about as China trade talks and Brexit dominate the financial press, but that still factor into the state of the markets. I can't remember the last headline about Russian expansion or friction along the India-Pakistan border, or any one of the many other potential events impacting global economics.

Besides potentially impacting our markets, the one thing all of these events have in common is that they are outside of our control. We can neither predict nor prevent these events from happening, but they play a role in our conversation about portfolio construction and financial planning. What we can control is how we allocate investments in a portfolio, in a manner that minimizes our response to headline news. If you have a long investment time horizon and a high tolerance for market fluctuations, you might take an all-equity approach to investing. For many, though, there is a desire for some short-term liquidity and income from your investments over the next few years. In this situation we recommend allocating funds to short- and medium-term instruments to help reduce the anxieties of day-to-day market fluctuations while still leaving room for stocks in a portfolio to provide long-term growth. We include stocks both from high-revenue growth companies and companies in stable, dividend-paying modes in order to remain balanced through various market cycles.

Naturally, in response to the headlines, many people ask, "Is there anything we should be doing differently now?" I know my answer, as well as those of my colleagues, might get repetitive, but we feel we should always be ready for whatever the headlines might say tomorrow. In a sense, we are planning for the short-term and the long-run all at the same time, allowing us to stay comfortably invested during short stretches of market upheaval while still maintaining a positive outlook for the future.

Mark Frombach, *Chief Investment Officer*

All companies face challenges and uncertainties, but those with excellent management, great products and services, and financial strength can thrive in the marketplace.

THE FED *Continued from cover*

can be a leading indicator but it's often wrong. My point is that you shouldn't try to predict a recession and you shouldn't try to time the market. The best investment results have come from those with long-term investment approaches.

To illustrate this point further, in March DALBAR released its investor performance metrics for calendar year 2018. Since 1994, DALBAR has created and tracked a measure they call QAIB (Quantitative Analysis of Investor Behavior). QAIB attempts to measure the effects of investors' buy and sell decisions on investor performance. DALBAR tracks mutual fund trade flows and measures how often investors buy and sell mutual funds and how their timing impacts performance. In 2018 they found that investors lost twice as much as the S&P 500 due to poor market-timing decisions. For instance, many investors sold equity mutual funds in late December; most of these investors missed the recent rebound. Every investor wants to be long the market in good times and out of the market in bad times. Unfortunately in my opinion it's an impossible strategy to execute over the long-run. Most often the more an investor trades the more their return suffers.

Long-term readers of our newsletter know that we value prudence, patience and a long-term approach to investing. We also believe that sticking to your long-term plan is the key to financial success. As always our dedicated team at Roffman Miller is here to help if you have any questions or if you'd like to review your goals, investments or financial plan.

Bob Hofmann, *President*

Gerry Guertin and Earl Miller

New Employees

As we have continued to grow over the last several years we have added some new faces to the halls of Roffman Miller. We would like to introduce you to two newer employees so when you see them in the office or talk to them on the phone you can better know who they are. The newest has only been here 7 months, and the other, while having been here three years in August, when compared with the average tenure of a Roffman Miller employee at 13 years, is still a newbie.

Gerry Guertin joined our firm in 2016. Gerry is an Investment Advisor. He is not only a member of the Investment Committee, the committee that shapes our investment strategy, but he also works with an assigned group of clients to implement their investment plans.

Gerry has been in the industry since 1993 and has worked at several other financial services companies including Charles Schwab and Citigroup Smith Barney. His Bachelor's degree is from Saint Joseph's University in Financial Management. He obtained the Chartered Financial Consulting designation (ChFC) in 2011 and is working towards becoming a Certified Financial Planner.

Gerry is a born and raised Philadelphian and a lifelong Eagles, Sixers, Phillies and Flyers fan. He is married with two kids, ages 9 and 2, who he loves to spend time with at the beach. He also loves to play golf.

Our newest Roffman Miller employee, Earl Miller, no relation to Peter Miller, joined the firm in September 2018 and like Gerry he is an Investment Advisor.

Earl's professional experience includes various roles in the financial industry at firms such as Main Line Investment Partners and Main Line Private Wealth, PNC Investments and Sanford Bernstein. Earl's undergraduate degree is from Saint Leo University and he also holds an MBA in Economics and Finance from Northeastern University. Earl served our country for over nine years in the United States Air Force participating in multiple engagements such as Operation Just Cause, Operation Desert Shield and Operation Desert Storm.

Earl is the proud father of two beautiful young ladies, ages 14 and 12. They reside in Southern New Jersey, with their newest family member, Max, a three month old Rottweiler. Earl also likes to spend time at the shore, garden and take spontaneous road trip adventures with the girls. He is an avid golfer and enjoys red wine and cooking.

I appreciate you joining me in providing a warm welcome to both Earl and Gerry.

Paulette Greenwell, *Vice President*

Charitable Contributions

When individual tax returns are due in April 2019, it will be the first time that tax payers will see the results of the sweeping tax law changes that went into effect for tax year 2018. I'm sure many will try to navigate through 2019 with a closer eye toward reducing taxes and maximizing deductions.

One such thought might be a process of 'bunching' charitable contributions into one year and then taking a break from contributions the following year(s). This strategy of making more contributions in a given year can be used to offset the effect of the higher standard deduction hurdle which has diluted the tax benefit of charitable contributions. Most people will take advantage of this option in years with high incomes or when they have a large, non-recurring income event like a big stock sale.

If bunching your contributions is a viable option, then consider a Schwab Donor Advised Fund. How does the Schwab Donor Advised Fund work?

FIRST

- Set up the Donor Advised Fund with Schwab.
- Minimum initial contribution of $5,000 / $500 minimum subsequent contributions
- Typically cash or investments can be used to contribute to the fund.
  (receive a current year tax deduction for the value contributed)

SECOND

- Invest the contribution.
  Schwab has several investment pools to invest the contribution.

THIRD

- Make periodic grants to the charities of your choice over the coming years.
- When you are ready, a request is made to Schwab to disburse funds to the charity of your choice.
- Grants can be made each year or based on a schedule that you choose.
  (at least one grant should be made every 5 years – based on program rules).

The use of a Donor Advised account does have fees associated with the investment and management of the fund. Please contact your Roffman Miller Investment Manager with any questions related to a Schwab Donor Advised fund.

Gerry Guertin, *Investment Manager*

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