Roffman Miller
Wealth Management

outlook

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What Lessons Can We Learn From History

Getting Ready for an Election Year

What a difference a decade can make. The decade of the 2010s is poised to return approximately 250% for the S&P 500! This has been the best decade for U.S. stocks since the 1950s. During this time period the U.S. never had an official bear market. The decade did have six corrections of 10% or more. During each of these corrections I listened to many predict a recurrence of the 2008 market meltdown and this prompted some investors to go to cash.

Over the last 25 years I've met hundreds of people who sold out of the market for one reason or another. I certainly understand the temptation. As long as there have been markets, there have been fearmongers prophesying Armageddon. If you go back to 1949, when Russia tested their first atomic bomb, the headlines were full of WWIII predictions. The S&P 500 finished up over 10% in 1949. In 1963 the unthinkable happened when President Kennedy was assassinated. The S&P 500 rose 22% that year. The largest one-day percentage drop in US history happened in 1987 when the market fell over 22%; the next day headlines were filled with doom and gloom.

Bob Hofmann
President

Even after the 1987 crash the market ended the year in positive territory. In fact, every year during the last ten-year bull market there have been countless calls for a market crash. However, if you go back to 1950 the market has been in rally mode 72% of the time. Given the math it's easy to understand why the pessimists are usually wrong. Moreover, these negative prognosticators are great at spewing fear but they rarely, if ever, tell you when to get back in. Timing the market might feel good in the short-run but over the long-run it simply doesn't work. In fact, I know people who have been in cash for over a decade. The decision to sell is easy; however, getting back in is very hard. Little, if anything, brings out the naysayers more than a presidential election.

Historically the S&P 500 index does very well the year before a presidential election (see chart below). Although this trend does not work 100% of the time, it's been an intriguing pattern. Election years have also been kind to the stock market. Election years are always politically charged with attack ads and heightened media scrutiny. Of course, this is also the time when candidates can illustrate their view of the future and unveil their optimistic plans which can create a sense of hopefulness. I'm guessing 2020 will be an emotional rollercoaster. We'll see dire headlines and reasons for hope. Unfortunately, these emotions can influence your investment decisions. Information is abundant and easily accessible. We live in such a minute-by-minute world. However, investing works over the long run. At Roffman Miller, we're focused on the long-term and we don't think emotions should impact your long-term investment plan.

Each president has had their own unique set of challenges that they had to work through (see chart below). During Reagan's first year in office, unemployment spiked to 11% as Fed Chairman Paul Volker hiked rates in unprecedented fashion to fight inflation. Black Monday also happened under Reagan's watch. This was the day in 1987 when the Dow plunged over 22%.

President George H. W. Bush started with a bang. His first year in office saw the S&P 500 climb 27%. He too would have his issues to deal with as the savings and loan crisis and the Gulf War transpired during his presidency. The economy fell into recession in 1990 and with 7% unemployment, President Bush lost his reelection bid.

The S&P 500 and the NASDAQ had remarkable results under Bill Clinton. During his tenure, the internet was unleashed and a new industry took the world by storm. This technological revolution created an enormous amount of jobs and forever changed the way we live. As a result, GDP topped 4% in five of Clinton's presidential years. This technological modernization also created a vast amount of wealth. Unfortunately, most of this wealth would be lost once the technology bubble collapsed.

George W. Bush presided over the nation during some of our darkest days. Bush took over as the dot-com bubble was collapsing. This collapse sent the country into recession. In September of 2001, the 9/11 attacks deepened the recession and sent the country into its war on terror. During Bush's second term growth began to pick-up due to low-interest rates and the housing boom. Of course, the housing bubble even-

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tually collapsed, and the nation landed in the middle of the Great Recession of 2008. Economically speaking this was the most terrifying time in my lifetime.

Barack Obama entered office, just as the Great Recession was ending. The financial and auto industries were saved by government bailouts. In 2009 unemployment topped 10%. Obama became president in January of 2009 and the stock market bottomed in March of the same year. This bottoming process started the beginning of the longest bull market run in our country's history and the S&P 500 almost tripled during the Obama era.

What lessons can we learn from this history? Every president has challenges to deal with. During each of these presidential terms, there were plenty of reasons to eschew investing. Americans persevere and work hard to overcome obstacles. There is an upward bias to progress in humanity and regardless of the circumstances, America has always found a way to succeed. Timing the market and going to cash due to headlines is not a productive investment strategy. Staying invested and having a long-term investment horizon is the key to successful investing. 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

Changes for 2020

New I.R.S. Contribution Limits

Provided by Lori Hartman

The I.R.S. just increased the annual contribution limits on IRAs, 401(k)s, and other widely used retirement plan accounts for 2020. Here's a quick look at the changes.

• Annual contributions into any type of IRA is up to $6,000. The limit is $7,000 if you will be 50 or older at any time in 2020.[1,2]

• Annual contribution limits for 401(k)s, 403(b)s, the federal Thrift Savings Plan, and most 457 plans also get a $500 boost for 2020. The new annual limit on contributions is $19,500. If you are 50 or older at any time in 2020, your yearly contribution limit for one of these accounts is $26,000.[1,2]

• Are you self-employed, or do you own a small business? You may have a solo 401(k) or a SEP IRA, which allows you to make both an employer and employee contribution. The ceiling on total solo 401(k) and SEP IRA contributions rises $1,000 in 2020, reaching $57,000.[3]

• If you have a SIMPLE retirement account, the contribution limit for 2020 is $13,500, up $500 from the 2019 level. If you are 50 or older in 2020, your annual SIMPLE plan contribution cap is $16,500.3

• Yearly contribution limits have also been set a bit higher for Health Savings Accounts (which may be used to save for retirement medical expenses). The 2020 limits: $3,550 for individuals with single medical coverage and $7,100 for those covered under qualifying family plans. If you are 55 or older in 2020, those respective limits are $1,000 higher.[4]

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PRESIDENTIAL RETURNS (pre-election and election year)

President	Pre-Election Return	Election Year Return
Franklin D Roosevelt	41%	27%
John F. Kennedy	18%	12%
Gerald Ford	(17%)	(29%)
Ronald Reagan	25%	(10%)
Bill Clinton	34%	20%
George W. Bush	26%	8%
Barack Obama	0%	13%

S&P 500 PERFORMANCE DURING THE FOUR- AND EIGHT-YEAR PRESIDENTIAL TERMS

President	1st Term	2nd Term
Ronald Reagan	30%	67%
George H. W. Bush	51%	n/a
Bill Clinton	79%	73%
George W. Bush	(12%)	(31%)
Barack Obama	85%	53%

A simple Q&A format based on what I thought you might want to ask

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There are so many ways to start the first newsletter of a new decade. My initial thoughts were to talk about my investing experience over the past twenty years: the challenges, the triumphs, and the failures. The backdrop of that story starts with the tech wreck that began in early 2000, 9/11, the real estate bubble fueled by sub-prime mortgages, and the subsequent global financial collapse. Those were followed by the Flash Crash, the 2011 federal debt ceiling crisis, a collapse in oil and gas prices, zero interest rate policy, Brexit, and trade wars. Not to mention the rise of smart phones, social media, and online everything. But then I read Bob's article; he seems to have covered most of that.

Mark Frombach
Chief Investment Officer

Instead, I opted for a simple Q&A format based on what I thought you might want to ask.

How did we do in 2019?

We had a terrific year. Our stock portfolio blended some high-growth companies, consumer staples, and consistent dividend payers to produce a nice return. The market fell dramatically in the fourth quarter of 2018 so there was room for a rebound. As markets rose in 2019, some stocks became more expensive. There are two factors that determine the price of a stock, earnings and investor sentiment. Earnings determine the long-run success. In the short term, however, investor sentiment can drive stock prices suddenly higher or lower.

Remember that fourth quarter of 2018? Stocks fell 17.5% over a 12-week period primarily based on fears that trade negotiations with China were not going well and the trade friction was having a negative impact on the U.S. economy. Over the course of 2019 increasingly positive headlines, along with the Federal Reserve's decision to lower interest rates again, assuaged investors' fears. The rebound in stock prices that followed was partially due to year-over-year earnings growth but partially due to stocks simply becoming more expensive once investors felt more comfortable and were willing to pay higher prices. A stock becomes more expensive when its pricing ratios (price-to-earnings, or P/E, for example) increase, not simply when the price of the stock increases.

Two standouts from 2019 were discussed at our latest Investment Committee meeting: Apple and Microsoft. Last year Apple's earnings were unchanged compared to the prior year's. That means 100% of the rise in the stock price of Apple was attributable to increased optimism. Apple products are largely made in China, and China is also a huge consumer of Apple products. This is one stock that was buoyed by positive sentiment around U.S./China relations, leading to a much higher P/E ratio.

Microsoft stock saw a dramatic price increase last year as well. But in this case, the company had impressive earnings growth. About half of the stock's price increase was due to higher earnings, and about half was due to P/E expansion.

Are we concerned about the higher prices? At times, but by paying attention to the reasons why the prices are increasing and maintaining a balance of the types of companies we hold, I think our stock portfolio allows clients to confidently hold a higher percentage of equities. Over time, that can lead to tax efficiencies and greater returns on the overall portfolio.

What do you think about 2020?

As most of you know, we do not make any near-term forecasts. The reason can be found in the paragraphs above: in the long-run, earnings rule. We simply cannot predict the global events that will dictate stock prices in the short term.

With that disclaimer out of the way, the landscape for investors is a mix of positives and negatives. Interest rates are low and that's great for stocks. But bond investors continue to suffer from low incomes. There's a presidential election this year that will provide uncertainty in the markets – we have not even begun to hear what the platforms will be for the final candidates. As troubles with China seem to be easing, the U.S. is engaging once again with Iran. Economic conditions in Europe may be firming but at the same time strikes in Paris are crippling the economy of one of the area's largest cities.

Stock and bond prices are high and therefore more sensitive to geopolitical and economic news. These factors, and those mentioned above, could combine to make 2020 a volatile year. It is hard to imagine stocks advancing dramatically because of the P/E expansion seen last year, but it is possible we could end up with market gains that mimic corporate earnings growth (mid-to-high single digit percent gains).

Are you doing anything different?

You have depended on us to have a consistent approach, and this remains a hallmark of how we invest. We still look for high quality companies that have enduring products, good management, and financial strength. We hold many companies that pay higher and higher dividends each year. Some companies that have focused on profitable revenue growth do not pay dividends, and we own some of those, too. The market has had no patience recently for good companies that are reinvesting or are facing public image problems. We hold a few of those, because finding value is still a thing in investing.

What do you think about interest rates?

Everyone who has made predictions about the direction of interest rates has been wrong. Our process insulates us from the potential rising and falling of rates – by having rolling maturities, we are reinvesting in bonds at all rate levels and therefore averaging out our return. This is an alternative to staying all in cash while rates are low, a strategy that has just produced low returns for the past six or seven years. Irrespective of interest rates, a high-quality bond portfolio can be a hedge against economic risk and should be considered for all but the most growth-oriented portfolios.

The Fed has indicated that they would not change rates in 2020. That's normally what they'll say going into a presidential election because they don't want to seem biased one way or another. But should economic conditions change, the Fed has the right and responsibility to change their approach. A week ago, the economy looked so strong that rates were floating upward. Now we've engaged an enemy in the Middle East and for the short-term, at least, money may seek the safety of U.S. treasury bonds and rates could be suppressed further. These machi-

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HSAs can be a great addition to your plan for covering health care expenses down the road

Health Savings Accounts

A Heath Savings Account (HSA) is a tax-advantaged account available to those who have a high-deductible health plan (HDHP). In the year 2020, to be considered a HDHP, deductibles must be at least $1,400 for an individual and $2,800 for a family. An HDHP's total yearly out-of-pocket expenses (including deductibles, copayments, and coinsurance) can't be more than $6,900 for an individual or $13,800 for a family. Usually the premiums paid for the plan are low in consideration of the higher deductible that needs to be satisfied. For a younger individual with fewer medical expenses, the HDHP can be a good choice.

The HSA is similar to an IRA in that it offers incentives to those who make contributions. There are three tax advantages:

- HSA contributions can be federally tax deductible
- Contributions and earnings grow federal tax-free
- Withdrawals for qualified out-of-pocket medical expenses are also tax free – whenever you take them, no matter what age *

*Qualified expenses include: health care deductibles, copayments, prescriptions, and necessary medical equipment as well as medical care not covered by insurance such as dental, vision, hearing, and long-term care. You can also use it to pay for medical expenses for a spouse or other dependent.

If you withdraw money from an HSA for something other than a qualified medical expense, it's a different story. In that case you'd pay ordinary income taxes on the withdrawal plus a penalty if you're under age 65. (After age 65 you can use an HSA to cover any expense; withdrawals would be subject to ordinary income tax but not a penalty)

Other advantages:

- If you don't use it, you don't lose it (let money grow tax-deferred until you need it)
- There is no income limit to contribute to an HSA
- Funds can be invested in mutual funds, stocks or fixed income (depends on your plan)

Of course, this only works if you fund the HSA account. The contribution limits are as follows:

- $3,550 for individuals
- $7,100 for families
- Catch-up contribution of $1,000 for those over age 55

HSAs can be a great addition to your plan for covering health care expenses down the road. Don't forget to do your homework. Compare the health plans available to you. Make sure to consider the costs and benefits that would apply to you and your budget. HDHPs mean lower premiums but higher deductibles and out-of-pocket expenses. Check the costs of the HSA and the investment options. Weigh all options before deciding, and when in doubt seek help from your health care plan administrator.

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nations go on and on and that's why we can't predict where rates will go from here.

But seriously, getting back to the past twenty years... did you learn anything?

Absolutely. First, I'd like to share some investment principles that I collected along the way and that have not changed since they were elucidated by John Maynad Keynes, written about by Ben Graham, and practiced by his disciple Warren Buffett: the importance of long-term focus; the benefits of an equity bias; the futility of market timing; the case for value investing; avoiding a preoccupation with liquidity; and the process of bottoms-up security selection. Off the top of my head I've been witness to at least six investing bubbles: tech stocks, real estate, gold, oil, cryptocurrency, and most recently, cannabis. All the pain of those bubbles could have been averted by staying closer to those principles.

Another revelation that surfaces over and over is that there are no good investment systems. An investment process can be systematic and rules-based, but should involve a healthy dose of human interaction and common sense. The bond ratings agencies that used a strict formula-based approach and ultimately rated junk bonds as Triple-A and facilitated the financial crisis are a great example of how systems break down under stress. I wonder if the rise of exchange traded index funds (which are at the intersection of two megatrends: passive investing and lower costs) will be another. As a final example to support the thesis, Stanford University just did a massive study on financial planning and concluded that the best withdrawal strategy for retirees was to use common sense. That's not a joke, you can look up the study online. If you practice common sense all the time, you'll probably never be chasing last year's hot investment or selling your account out completely.

We have discussed those tenets over and over through the years, and I'm sure we will again in future letters. With that, I thank you for the trust and confidence you placed in us for the past three decades, and for the many decades to come. Happy New Year!

Mark Frombach, Chief Investment Officer

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