Outlook

A Quarterly Newsletter from Roffman Miller Associates

04 October 2013

Chairman's Letter

I am not going to talk about what's going on in Washington because it's not going to affect the way we manage money.

Before there was Warren Buffett, the best investor of his time was Sir John Templeton. He was the founder of the Templeton funds and I had the privilege of hearing him speak in the early '80s. Sir John was 72 years old but had not yet been knighted. The Dow Jones Industrial Average was under 1000. During Mr. Templeton's speech he made the prediction that the Dow was going to 1600. On the way back to my office at Janney Montgomery Scott a senior broker who had been with me for the presentation said, "That's it! Templeton has lost his marbles. The market has only been above 1000 twice and in your lifetime you will never see a 1600 Dow." Being much younger at the time, I was a lot more optimistic and said to myself "I hope John Templeton's right."

In the spring of 1991 Roffman Miller finally got the okay from the SEC (Securities and Exchange Commission) to start managing money. One of my best clients from my days as a broker had promised to give me $1 million to manage. I called him the same day as the SEC notice and told him I could start managing his million dollars. His response was "it's a shame your timing is bad because the Dow has just gone over 3000." He said that when the market settles back down below 3000 he would give me the account. The Dow has never gone back down under 3000 which was a good thing for our company. The bad news was my client never put the million dollars to work.

The reason I'm telling you these two stories is to point out that it's not the Dow number that counts, it's the fundamentals of the 30 companies that make up the Dow. It's the old saying that 'it's not a stock market but a market of stocks.' That's how we have invested for the last 22 years. Our success will come from how well the companies we own execute by growing their sales and earnings for the long-term.

After 10 years of using the same picture it was decided that it's time for a new picture. My only comment on the new photo is what my four-year-old granddaughter said to me, "You should always respect old people because they have experience and wisdom." I thought that was very insightful of such a young person until my daughter explained that she was quoting SpongeBob Square Pants.

As you can see I am still able to lift a phone so feel free to give me a call with any comments or concerns.

Sincerely,
Peter Miller
Chairman and Founder

Fixed Income Corner

The overwhelming concern in the markets for the past six months has been rising interest rates stemming from the Federal Reserve's pending reduction, or "taper", of the bond purchase program better known as quantitative easing. The consensus among experts before the September meeting was that the Fed would announce they'd spend $10-$15 billion *less* each month buying back U.S. Treasury and Agency bonds. As with many market transitions, the masses assumed an absolute worst case scenario where higher rates would ensue and kill the recovery in employment and in the general economy. Any thinking to the contrary was considered grossly naïve.

Well, the Fed delivered a counterpunch to that with its September 18th decision to maintain bond purchases at the current level of $85 billion per month. Some might say they are only delaying the inevitable and that the markets will go through the same turbulence we recently suffered through when they do eventually commit to reducing the program. But I think Bernanke delivered an important and hopefully effective message: by foregoing even a minor adjustment to policy that was already assumed by the markets and arguably well received, I believe the Fed is reminding the markets that they will not let the worst case scenario play out and put the recovery at risk. Furthermore, I think the message is also that once the reductions do begin, they will not hesitate to stop or even reverse course if the policy change threatens the recovery. This should alleviate any undue anxiety over bond investments and allow us to invest knowing that any changes in interest rates will most likely be a gradual transition and not a series of shocks that threaten the economy.

Ryan Crooks, Investment Manager

Inheritance Tax

Some states impose an inheritance tax on the estates of decedents. Some levy an estate tax. And some utilize both an estate and an inheritance tax. In Pennsylvania there is an Inheritance Tax. In New Jersey, both. No matter where you live, we recommend you speak to an estate planning attorney to find out the details that will affect you and your family. The following information is from the PA Department of Revenue and is available on their website:

Inheritance tax is imposed as a percentage of the value of a decedent's estate transferred to beneficiaries by will, heirs by intestacy and transferees by operation of law. The tax rate varies depending on the relationship of the heir to the decedent. The rates for Pennsylvania inheritance tax are as follows:

- 0 percent on transfers to a surviving spouse or to a parent from a child aged 21 or younger; Property owned jointly between husband and wife is exempt from inheritance tax.
- 4.5 percent on transfers to direct descendants and lineal heirs;
- 12 percent on transfers to siblings; and
- 15 percent on transfers to other heirs, except charitable organizations, exempt institutions and government entities exempt from tax.

When is the PA Inheritance Tax due?
The tax is due at the date of death and becomes delinquent nine months after the date of death.
What property is subject to inheritance tax?
All real and tangible personal property of a PA resident decedent, including but not limited to cash, oil and gas rights, automobiles, furniture, antiques and jewelry located in Pennsylvania at the time of the decedent's death, is taxable. All intangible property of a resident decedent, including stocks, bonds, bank accounts loans receivable, etc., is also taxable, regardless of where it is located at the time of the decedent's death.
Is an inheritance considered taxable for PA personal income tax purposes?
No, inheritances are not taxable for PA personal income tax purposes. However, if you qualify for Tax Forgiveness, you will need to include as income on PA Schedule SPA the value of any inheritance received the prior year.
For the sake of convenience, I put my mother's name on my savings account. Recently my mother died, and now I am told I have to pay inheritance tax on my own money. Is this true?
Under inheritance tax law, the account was jointly owned, since you and your mother had equal access to the account. Therefore, in this case, the survivor is taxed on one-half the amount in the account.

The House of Mouse

If you've been reading this newsletter for a few years then you know that I love all the old market aphorisms that get tossed around from time to time, and I heard one of them the other day that made me stop and think for a minute: *Great investments start with companies that make things that hurt if you drop them on your foot.* I don't really know the origin of this one, but I think what the person I heard was trying to say was that profits on hard goods – refrigerators, jet engines, steel – are largely dictated by the supply/demand curve, raw materials costs, plus labor and shipping expenses. In other words they are businesses that aren't too hard to figure out, ones you buy in good times and sell in bad. And today with a growing GDP and low inflation in materials and labor, it might be a good time to own some of those companies.

Of course not every company is a manufacturer. In fact, the US economy is more of a 'service' economy today than at any point in its history with many people working in healthcare, retail, and financial services who do valuable things but don't make any tangible product. Last quarter I highlighted DuPont and its products, technologies, history, and future. DuPont calls itself a "science company." To me that means they are going to invent more things but let someone else make them! Trust me, there is a lot of profit in that type of business model. But for now, DuPont still manufactures quite a number of things and it has been working just fine for them.

Another company that is very innovative, manages its brands very well, and has a large library of intellectual property is The Walt Disney Company. Disney, founded in 1923 by Roy and Walt Disney as the Disney Brothers Cartoon Studio, has five divisions but the big three are Media Networks, Parks and Resorts, and Studio Entertainment.

Disney's Media Networks division includes not only the namesake Disney Channel(s) on cable TV, but also ESPN and the ABC network. This division doesn't make anything that you can drop on your foot, but it does make more than half of Disney's profits by selling to cable customers and also by selling advertising time.

Most people are familiar with Disney Parks and Resorts. Since Disneyland was first conceived in 1954 the company has added Walt Disney World, Disneyland Paris, Hong Kong Disneyland Resort, Disney Vacation Club, and Disney Cruise Line. The company also licenses operations at other resorts around the world that carry the Disney name, but essentially they make most of their money selling tickets to the parks and food and drink to the people inside the parks.

Studio Entertainment means movies and it is here that Disney has some of the greatest artistic intellectual property on the planet – and a collection that keeps growing. Disney CEO Bob Iger knows about movies and television; he was the president of ABC when Disney acquired the company in 1996. He became president of Disney in 2000 and chief executive in 2005. Since then, Iger has taken the existing vault of Disney characters to new heights of popularity and amassed an arsenal of future movie material and artistic talent through the acquisitions of Pixar (Toy Story, Cars) in 1996, MARVEL (Ironman, The Avengers) in 2009, and in 2012 LucasFilm (Star Wars).

The Walt Disney Company

Disney's stock has done well under Bob Iger, and some of that success can be attributed to the decisions he made. Some day he'll leave but the company will have to continue on. Often losing a great leader like Iger is a big blow to a company. But I think Disney is different. Disney is in the entertainment business, and until life as we know it changes people want to be entertained. They bring us live sports which sells a lot of (the most profitable) advertising. They have theme parks whose success has been hard to duplicate. And, they have a library of television shows and movies rich with characters and stories that can be told over and over and over again. The difference between Disney and, say, DuPont, is that Disney has already invented all of this stuff and they are just looking for the next generation of customers to be born.

Disney's dividend yield is small (just over 1%). However, they have more than doubled their dividend since 2007 including a 50% raise in 2011 and a 25% raise in 2012, making Disney a good choice for both growth and income.

Mark Frombach, Chief Investment Officer

Increasing Your Cash Flow

We all know how difficult it is to earn interest on your money in a safe way. Bank savings accounts and CDs yield very little. In order to make any money on your money today investors need to take on risk. In my opinion the best long-term investment is ownership in high quality dividend paying stocks. Stocks not only offer attractive yields but many companies have a long track record of raising their dividends every year. In fact Proctor & Gamble, 3M and Johnson & Johnson have all raised their dividend every year for more than 50 years! Not only have they raised their dividends but the percentage increase has far outpaced the rate of inflation. I put together a list of some of the companies that we invest in who have raised their dividend every year for 25 years or more. I've also included the 5 year average dividend growth rate for each of these companies. (See table)

For 30 years we've watched the yield on the 10 year Treasury steadily decline. On the flip side many stocks have consistently increased their dividends over the same time period. Furthermore these companies have had significant capital appreciation. In the short-term we all know that stocks are risky assets. However, even in the worst market years these companies have increased their cash payouts to shareholders. For example, look at Pepsi. At the end of 2007 they sold over $39 billon in product and paid a dividend of $1.43 a share. We all remember how the world was in turmoil in 2008 and during the first quarter of 2009. Despite these challenges the employees of Pepsi still came to work everyday and they continued to sell products. In fact by the end of 2012 Pepsi was selling more than $65 billion in snacks and drinks and their dividend increased to $2.13 a share. It was tough to watch the stock price in 2008; however, patient investors made out just fine.

When it comes to investing in the stock market it can't all be about income. We need balance in our portfolios so incorporating growth stocks will provide us with higher return possibilities. Our high dividend stocks have had great returns over the last several years; however, growth stocks may take a leadership role in the coming years. Having balance and recognizing the changing investment landscape are important roles in managing our clients' portfolios.

Finally I believe that our short-term bond ladder will produce higher income over the next several years. I think that interest rates will slowly rise and as they do we will invest matured bonds in new higher yielding issues. If I'm right, we're entering into a period where stock dividends will increase and bond interest rates will improve. So a carefully constructed portfolio should provide a great boost to your income for years to come.

Company	Consecutive Years of Dividend Increases	5 Year Average Dividend Growth
Procter & Gamble	57	9.19%
3M	55	4.75%
Johnson & Johnson	51	7.74%
Nordson	50	11.79%
VF Corp	40	8.71%
Kimberly Clark	41	6.92%
Pepsi	41	6.68%
ADP	38	8.51%
RPM International	39	3.45%
McDonalds	36	4.37%
Exxon	31	9.94%
AFLAC	30	8.73%
McCormick	27	9.11%

Bob Hoffman, President

Contact Information
Roffman Miller Associates, Inc.
1835 Market Street
Suite 500
Philadelphia, PA 19103

Tel: 215-981-1030 Toll-free: 800-995-1030 fax: 215-981-0146
www.roffmanmiller.com info@roffmanmiller.com