QuarterNotes

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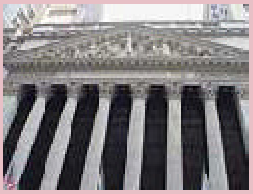

In this Issue

- *With interest rates falling are we in danger of repeating Japan's mistakes?*
- *New tax law provides planning opportunities.*
- *Key points to look for in long term care.*

Firestone Capital Management files annual updates to our ADV registration form. If you would like to be sent a copy of the form when it is filed, please call the office we will be happy to send you one.

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Economy Down But Not Out As Markets Begin To Recover

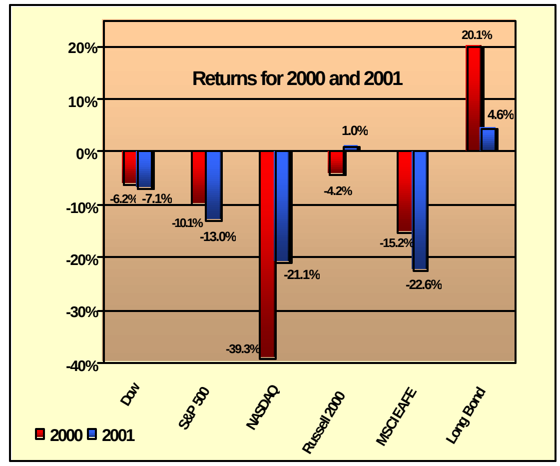
Fears of an economy spiraling downward after the terrorist attacks of September 11th have not materialized. While the US economy continued to contract throughout the last quarter of the year and we are clearly in a recession, key growth measures are beginning to stabilize and the recession probably will not be as deep or long as feared. Inflation is still flat, helped by slowing demand and lower oil prices. Low mortgage rates have stimulated construction and new home spending. Profits are still weak, unemployment is higher than desirable and exports continue to be hurt by a combination of economic difficulties abroad and a strong dollar.

Shrinking production has caused businesses to liquidate inventories which will eventually have to be replaced resulting in an up tick in production. Consumer spending has slowed, but has showed an amazing resiliency. Monetary liquidity (the amount of cash available for business and spending) was sustained by eleven Fed rate cuts this year. Substantial increased government spending, with or without a stimulus package, has started flowing through the economy. As the year begins the Fed stands ready to further ease interest rates to support a transition from recession to recovery.

The financial markets responded with a quarter that helped mitigate some of the pain investors have felt over the past 18 months.

In a much improved quarter, the Dow was up 13.3%, S&P 500 gained 10.3% and the small cap Russell 2000 rebounded 20.7%. But for the year, the Dow was still off 7.1% , the S&P lost 13% and the Russell 2000 showed the only positive annual equity return up 1%.

Developments at year's end portend a recovery which we expect in the Spring. Consumer confidence jumped in December despite presently weak spending. Real GDP for the 4th quarter 2001 is expected to be zero rather than negative as initially foreccast. All of this leads us to anticipate modest growth for 2002 and improved market returns.



Long term Care Revisited

Long term care insurance has become a more important component of financial security as life expectancies grow longer and health care costs escalate. Long term insurance is not crucial for everyone, but if you are looking at a policy, keep the following issues in mind.

Only buy a policy from a company rated "AA" or better by A. M. Best. Consider lifetime coverage even though it is more expensive. If cost is a concern, better to extend the waiting period before benefits start. Most people will only need less than three years of benefits, but it is prudent to insure the risk you cannot afford to take yourself. Include an inflation adjustment, but don't buy a policy you cannot afford to continue to fund.

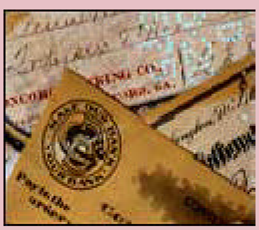
Include key options such as home health care at 100% and the ability to use an independent care giver (someone the family chooses). Some policies have weekly or monthly benefits (rather than daily) to allow for different levels of services on different days—such as twice a week therapies.

Find a policy with coverage for mental illness. Other valuable benefits are the ability to select an independent care coordinator and the availability of standby assistance—in case you are able to perform tasks of daily living but need someone standing by "just in case".

Bonds Get Respect

As the stock markets deteriorated over the past 18 months with losses in almost every category, bonds provided investors with a haven for positive investment returns. Bonds were a diversifier in a difficult investment climate.

Not all bonds are created equal, however. Bonds of marginally creditworthy firms (junk or near junk bonds) posted significant losses due to fear of default. Convertible bonds lost value as the allure of the underlying stock valuations fell.



Web Site Upgrade

Our new website is now working with far more tools and robust content. You can also look for past issues of these Newsletters as they are added this quarter.

Tax Law Changes Provide New Planning Opportunities

The Economic Growth and Tax Relief Reconciliation Act of 2001 provides some planning opportunities which were not previously available.

Here is an overview of some of the changes, separated into planning categories:

RETIREMENT PLANNING

1) Increased IRA limits to $3000 for 2002-2004, $4000 for 2005-2007, $5000 in 2008 and after. Limits will be indexed for inflation post 2008. For those over 50 there is an extra "catch-up" provision to save even more.
2) Maximum salary deductions for 401-K plans increase from $10,500 to $11,000 in 2002. Annual $1000 additional increases will be phased in each year until the contribution limits reach $15,000 in 2006. "Catch-up" contributions are allowed for those over 50.

COLLEGE SAVINGS

1) 529 Plans: Earnings are exempt if funds are used for qualified educational expenses.

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2) Transfers between state plans are tax-free.
3) Education IRA increases from $500 to $2000; while not tax deductible the earnings are tax-free.
4) Education IRAs can now be used for elementary and secondary education.
5) Income levels have been increased for phase-outs.

INCOME TAX SAVINGS

1) Lower tax rates: Marginal tax rates are scheduled to decline through 2006.
2) By 2006, the 39.6% rate will fall to 35%; 36% to 33%; 31% to 28% and 28% to 25%.

ESTATE TAX SAVINGS

1) Between 2002 and 2009, the unified credit (the amount any one person exempts for the federal estate tax) will increase from $1 million to $3.5 million. By 2010, estate and generation skipping taxes are to be repealed and gift taxes are capped at 35%.
2) Starting in 2002, the annual gift exclusion goes up to $11,000. It will be indexed thereafter.

Unless it is revised or extended, the entire tax act disappears in 2010 and the old laws will be reinstated.

The Federal Reserve cut interest rates eleven times during the past year. Short-term rates are now the lowest in 40 years, down to 1.75%. As the Fed continues to cut interest rates, some are worried about what happens when the Fed has no more room to cut. This is what happened to Japan during the last decade.

Will we suffer the same fate as Japan, a decade of negative or no growth and recent deflation?There certainly are similarities. Both Japan in the 1980s and the US in the 1990s were the envy of the world in terms of growth, productivity, and innovation. Both had over expansion in high tech areas leading to excess capacity and therefore restricted or no profitability. Both had a stock market bubble which burst, ending the expansionary cycle.

There are substantial differences to keep the US economy from suffering the fate of Japan. In addition to its stock market bubble, Japan had a simultaneous real estate bubble.

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The banking system became endangered as loans made were based on highly inflated values of real property. Japanese banks have not yet restructured, unwilling to write down losses as the US did during the Savings & Loan debacle of the 80s. Even with the difficulties of companies such as Enron, our banking system remains strong.

In addition, the US government has the ability to act quickly. It took the Bank of Japan four and a half years to cut interest rates by the same amount it took the Fed ten months. The US has quickly turned surpluses into deficits by cutting taxes and increasing government spending which will support economic activity, while Japan worked for three years before creating any significant stimulus package.

Even more crucial is the free market environment in which US companies operate. There are no lifetime employment guarantees or patient investors. The system is more efficient in that it is flexible and open to change - painful as that restructuring might be.