Quarter Notes

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Bits and Pieces

June 2001: *Bloomberg Wealth Manager* includes Firestone Capital Management as one of "Bloomberg's Top Wealth Managers " in an article entitled "Cream of The Crop."

In times like this you just have to hang in there & hope for a soft landing.

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Stocks Rise in Second Quarter, Still Off Year to Date

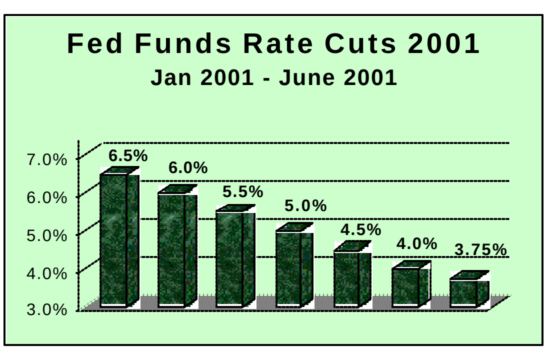
The major indicies finally provided positive returns this quarter. The Nasdaq gained 17.4 %, and the Dow was up 6.3%, and broader S & P 500 rose 5.5%.

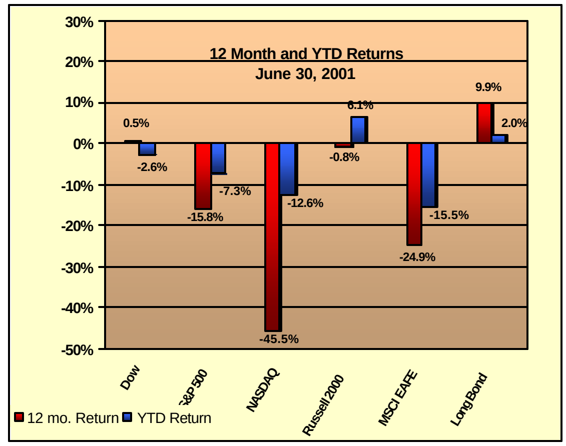
However, during the six month period ending June 30, profit warnings and concerns about future corporate profitability have driven the Nasdaq composite index lower by 12.6 % extending 2000's loss of nearly 40%. After falling 6.1% last year, the Dow lost another 2.6% so far this year and the S &P is still off 7.3% half way through the year.

Let's hope the worst is over. The market lows reached in early April may have been the bottom. The housing sector continues to be strong, energy prices are falling and auto sales have improved. Consumer sentiment has picked up and new claims for unemployment benefits have dropped three weeks in a row.

However, the economy continues to be weak. The Federal Reserve has now lowered interest rates six times since New Years Day and there is still no sign of a pick up in the economy. With Fed Funds currently at 3.75%, rates are the lowest since April of 1994. Real interest rates (with inflation is factored in) are approaching zero. Such low interest rates aren't good for fixed income investors. Low interest rates especially hurt retirees and those living on fixed incomes. The stock market barely reacted to the last rate cut.

Some analysts fear that more interest-rate cuts could make money too easily available and fuel inflation, but the Fed is not yet concerned about inflation.





Why Hold International Investments?

Some clients are beginning to question why we own any investments outside the U.S.. Good question. Answer: We invest overseas for the following reasons: to diversify, reduce risks and ultimately to improve returns. Further, global economic cycles are shifting overseas. International investors are demanding more equities, providing market support. High quality growth is available at reasonable prices and a strong dollar enhances buying power. In five of the last twenty years, international investments were the best performaing asset class.

As business becomes increasingly global and economic ties among nations increase, we expected that international markets would become more correlated, but the Vanguard Group found that longer term correlations haven't increased significantly.

International markets have had a tough run in large measure because the Dollar has been so strong. The Euro, the European Monetary Union currency, has fallen in value against the Dollar by nearly a third since its introduction. Even though Europe and Japan are about six months behind us in their slow down, we don't know when they will turn around, so we need to be invested when they do.

Headlines

Tax Rates Drop

2010 The Estate Tax is finally repealed. For just one year.

529 College savings plans may have tax-free withdrawals.

Facts

Every time the Fed has lowered interest rates five consequetive times, the stock markets were higher one year later.

According to Lipper, Inc. after the 1987 market crash when the Dow dropped more than 20%, one year later most stock portfolios had recovered.

Note:

New IRA rules make designated beneficiaries crucial. We are in the process of updating IRA beneficiary information. Look for appropriate forms in the mail over the next month.

Update on the New Tax Law

Retirement Savings

The new tax law has some significant changes affecting saving for retirement. Contribution limits have been increased as follows:

- Traditional & Roth IRA limits increase to $3000 in 2002, $4000 in 2005, and $5000 in 2008 and are indexed for inflation after that, although deductibility limits stay the same;
- 401(k) and similar plans increase to $11,000 in 2002 and by $1000 per year up to $15,000;
- Simple IRA limits increase to $7000 in 2002 and then $1000 per year until reaching $10,000;
- Limits on defined contribution plans increase from $35,000 to $40,000 in 2002 with future inflation adjustments;
- IRA catch-up provisions for people over 50 were established;
- Retirement plan rollover provisions were liberalized.

529 College Plans Get Even Better

In our last quarterly newsletter, we discussed funding college expense with 529 college funding plans. Recent tax reform has made distributions from 529 college saving plans as well as a prepaid college programs exempt from taxes when withdrawals are used for education funding. This has changed an attractive college funding option into a compelling one. Therefore, we will reiterate the highlights of these plans here:

Pros:

- Anyone can open an account regardless of income;
- Account opener retains control and can change beneficiary;
- Money grows and is withdrawn tax free when used for qualifying education expenses (tuition, fees, room, board, books, supplies, and computers at any accredited school, undergraduate or graduate);
- You can deposit up to $50,000 ($100,000 for a married couple) without incurring federal gift taxes, which can move a large sum out of your estate. Note: with a $50,000 contribution you can't make any additional gifts for five years .

Cons:

- Lack of investment flexibility: contributions are sent to state plan and managed by established money management firms;
- Tapping the account for nonqualified expenses leads to a 10% penalty plus taxes due;
- There is no guarantee that the investments will grow sufficiently to cover college costs.

Since each state has slightly different offerings, we will be available to assist you in evaluating the alternatives.

Estate Taxes

The amount of an estate which is exempt from Federal Estate taxes increased dramatically with the new tax law. In 2002, the exemption is increased to $1,000,000 and it goes up in irregular increments until it disappears on January 1, 2010. In addition, taxes on the balance of the estate over the exempt amount are slowly reduced from their current maximum of 55% to a maximum of 45% in 2007, until the 2010 date does away with the tax altogether.

A caveat: In the 1980's, the Senate agreed that any budget bill which extended more than ten years and was not revenue neutral would "sunset" at the end of the ten year period unless a three-fifths majority of Senators approved it. That means the old rules for taxing an estate are reinstated in 2011 at previous levels unless Congress takes further action. This leads to a tremendous uncertainty in estate tax planning.

Income Tax Rate Cuts

In the Tax Relief-Reconciliation Act of 2001 there are complicated phase in provisions affecting income taxes. Certainly, your CPA will review them at filing time. Here are a few highlights of items which we expect will affect you. Retroactive for 2001, income tax rates are cut across the board. This will amount to an advance refund check of $300 for most taxpayers ($600 for joint filers). Most of the tax cuts in the act are phased in over a multi year period.

Year	28%	31%	36%	39.6%
2001	27%	30%	35%	38.6%
2002-3	27%	30%	35%	38.6%
2004-5	26%	29%	34%	37.6%
2006	26%	28%	33%	35%

In addition, elimination of income limitations for phase-outs of itemized deductions and personal exemptions will help higher earners, but these eliminations do not begin to occur until 2006.