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QtrNotes

Qtr 1 January 2012

FIRESTONE
CAPITAL MANAGEMENT

Volume 20 No. 1

2012 Changes for Retirement Plan Contributions:

2012 marks the first increase in three years to the annual limits for 401(k) plan contributions. Other key limits remain the same as in 2011.

Changes:

Individual tax-deferred 401(k) and 403(b) contributions:
$17,000, up from $16,500

Total defined plan contribution limit:
$50,000, up from $49,000

Unchanged:

Traditional IRA contributions: $5,000

Additional catch-up IRA contributions for taxpayers age 50 and over: $1,000

Additional catch-up 401(k) contributions for taxpayers age 50 and over: $5,500

Future changes for 2013 and beyond will be indexed to inflation.

A Glass Half-Empty or Half-Full: What's Ahead for 2012?

With much of the world seeming in turmoil—financial problems in Europe, political upheaval and revolution in the Middle East, natural disasters and an uncertain future—the U.S. has once again become the safe haven for the world's investors.

The U.S. Treasury remains the risk-free benchmark, but with the 10-year Treasury yielding less than 2%, at maturity in 2022, the chance that the purchasing power of those dollars will be maintained is virtually nil. With many blue-chip U.S. stocks yielding over 2.5% and corporate profits at all-time highs, the opportunity for capital appreciation in addition to competitive yields makes dividend-paying stocks an attractive choice, even for cautious investors. Despite virtually flat domestic stock performance in 2011, the economic numbers continue to improve.

What are the numbers telling us about the economy? Unemployment is slowly coming down. The official unemployment rate now stands at 8.6%, compared with 9.4% at the end of 2010. Monthly new claims for unemployment insurance remain volatile, but the overall trend points to consistent improvement over the last 5 months, a promising sign. Retail sales grew nearly 8% through November 2011 compared with 6.2% during 2010. Auto sales have increased steadily since bottoming in 2009, and look set to grow further in 2012. In December, for the 29th consecutive month, the nation's manufacturing sector expanded. The Purchasing Managers Index indicates further growth.

November housing starts increased another 3.6%, but prices are still under pressure as the backlog of unsold and foreclosed homes persists. During the quarter, the benchmark 30-year mortgage rate, already at a historic low, dipped below 4%. Housing affordability has never been higher. Despite improving economic data, consumer sentiment remains stubbornly weak.

Index	*12/31/2011*	*% YTD*
Dow Industrials	**12,217.56**	**5.5%**
S&P 500 Index	**1257.60**	**0.0%**
Nasdaq Composite	**2605.15**	**-1.8%**
Russell 2000	**747.92**	**-5.5%**
MSCI EAFE	**1422.40**	**-14.2%**
10-Year Treasury	**1.9%**	

Politics are likely to have a major effect on investor sentiment. Gridlock in Washington has frustrated investors, who want a clearer set of proposals and solutions to America's financial and social problems. The visibility of Occupy Wall Street has diminished with the arrival of winter, but its message of economic inequality and disparity of wealth seems to have gained a foothold in the national dialogue and may be a factor in upcoming elections. Congress has "kicked the can down the road" one too many times and will have to confront economic realities during 2012.

What does this all mean for investors in 2012? Expect another bumpy ride, as the debt crisis in Europe continues to unfold and political contention in the U.S. heats up. Despite predictions of doom and gloom for the European Union, expect further coordinated action from the European Central Bank and the EU nations to provide intermittent relief throughout the year. The investor's best friend in 2012 will likely be the U.S. and our own Federal Reserve. We expect that no one will attempt to rock the boat or institute painful monetary or fiscal reform in an election year. We can't gauge to what extent further deterioration in Europe will affect global growth, and this remains the biggest risk to investors. On the whole, the glass appears half-full.

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Volatility Reigns:

The last few years have been the most volatile in the stock market in its entire history. 10 of the biggest 20 daily upswings and 11 of the largest 20 daily drops from 1980 to late 2011 have occurred in just the last three years.

Quotes:

"The rear-view mirror is always clearer than the windshield."

- Warren Buffett

"Many an optimist has become rich by buying out a pessimist."

- Lawrence J. Peter

"In the world of investing, being average means you're one of the best students in the class."

- Robert R. Julian

Greece, Europe, and Your Portfolio

The Federal Reserve recently joined with five other central banks to help the European Central Bank shore up its banking system. This was a stopgap rather than a solution, and until there is a more permanent resolution to Europe's woes, market volatility will persist. We expect to continue to feel the impact of financial dislocation and disruption in the European Union.

For Greece and greater Europe, three different problems have combined to form a "perfect storm." First is the hangover of nonperforming loans resulting from the one-two punches of the credit crisis in 2008 and the sovereign debt crisis today. Second are the European countries that have established overly generous social and pension benefit programs which, given their demographics, are no longer sustainable. The third issue is that the tools available to the European Central Bank for managing the crisis are limited, given the diversity of countries and cultures involved. This trifecta has created a precarious situation for the monetary decision-makers, requiring the financially stronger countries, primarily Germany, to bail out the weaker countries.

Clearly, there is no easy solution, and the likely actions may well limit upside potential in the international markets. If solutions remain elusive, then the problems within Europe's banking system—nearly 2½ times the size of the entire U.S. banking industry—could continue to infect the world economy. Confidence in the region has dropped sharply. With European markets in shambles, the euro has fallen to a 15-month low.

To that end, we have recently reviewed client portfolios with the intent of reducing excess exposure in the vulnerable international sector. Given that we have trimmed back exposure for most, some clients may wonder why we would keep any international holdings at all in light of our analysis. The reason is that economics is an inexact discipline, and it is entirely possible that we are wrong. European problems may be resolved more swiftly than expected and cause those markets to rally.

Although international equity prices are depressed, the international sector remains a key component of any diversified portfolio, and good companies with worldwide export and distribution capabilities have the potential to do well as their currency becomes weaker and their prices more competitive in world markets.

New Planning Tools

The start of a new year is a great time to update your financial and estate plan, and we're excited about our improved resources to help you prepare for the future. In our effort to improve and expand our capabilities, Firestone has recently invested in two new technology platforms. We're extremely pleased with the products we have chosen and we hope you will benefit from the added capacity and value.

We've acquired a new comprehensive financial planning software platform, which enhances our planning capabilities and provides us with a suite of tools to better address your planning needs. The new platform offers much more robust scenario projections, better analytics and superior graphical output than any we've had in the past.

In addition, we will now be offering account aggregation via a secure web-based service. We'll be able to integrate data on assets that we currently manage with detailed information on your other accounts, including retirement plans such as 401(k), 403(b) and 457 plans, 529 plans and annuities.

This aggregation will provide us with a holistic view of your assets, allowing for a much more comprehensive review and rebalance process. With this resource, we will be able to provide you with comprehensive performance reporting across all of your investment assets, advise you on investment decisions on these outside accounts, and take these investments into consideration when allocating your overall portfolio.

We will be contacting you during the upcoming months to discuss how these new tools can improve the service we provide you, and we encourage you to contact us as well.