www.firestonecapital.com

QtrNotes

Qtr 3 July 2014

FIRESTONE
CAPITAL MANAGEMENT

Volume 22 No. 3

In this Issue

- The Economy
- Retirement Income
- Inherited IRAs
- Ransomware
- New Team Member
- Quotes

Quotes:

Unforeseeable health issues are the most often-cited reason that people who think they will continue to work in retirement are not able to do so.
Social Security Administration

Don't simply retire *from* something; have something to retire *to*.
Harry Emerson Fosdick

Everything should be as simple as possible, and no simpler.
Albert Einstein

Retirement is not in my vocabulary. They aren't going to get rid of me that way.
Betty White

Knowledge is knowing a tomato is a fruit. Wisdom is not using it in a fruit salad.
Miles Kington

The trouble with retirement is that you never get a day off.
Abe Lemons

Slow Growth, Low Interest Rates, and Improving Confidence

The US economy will grow around 2% this year. This is a slow recovery from a historical perspective, but most economic indicators over the last several months support the view that the pace of the US recovery is beginning to accelerate. Consumer confidence has been steadily improving, spending is moving higher, bank lending is increasing, and even railcar freight loads are getting heavier. Home prices continue to rise across the country, but despite encouraging numbers from May, sales and new construction remain weak year over year.

We have mentioned the resurgence of US manufacturing in the past, and repeat the story today: manufacturing jobs have been steadily increasing since 2010, reversing the prior decades' pattern of consistent decline. A healthy growth in jobs and fewer people filing for unemployment insurance are critical to our economic improvement.

Tempering the improvement in employment data is the fact that real household income hasn't kept pace with changes in inflation. The Federal Reserve's recent activity is tailored to our current predicament: we've had five years of economic growth, but not everyone at the party is having a great time. As the Fed reduces monthly bond purchases, they haven't taken away the punch bowl just yet and are still spiking the punch; but the recipe is more diluted with each new batch. Low interest rates set by the Fed continue to penalize savers, and we don't expect rates to rise until some time in 2015.

Across the pond, the European economy is growing again, but much more slowly than the US, because of higher levels of unemployment and debt. The European Central Bank (ECB) is doing everything in its power to promote the circulation of money and opportunity. To bolster recovery and encourage investment and hiring, the ECB recently announced two major changes to interest rates. The first change reduces the benchmark interest rate, used by lenders to provide funds to corporations and individuals. The second changes the Deposit Facility rate (the interest paid on a bank's deposits) to *minus* .1%. Yes, a negative rate: instead of paying interest to banks that stash money away, the ECB is now charging a penalty for banks that aren't lending.

Index	6/30/2014	YTD
Dow Industrials	16,826.60	1.5%
S&P 500 Index	1,960.23	6.1%
Russell 2000	1,192.96	2.5%
MSCI EAFE	1,982.60	3.5%
Global Bond Index	476.27	4.9%
10-Year Treasury yld	2.53%	

Emerging markets stocks are finally up this year, although economic growth in the sector is still below average. Emerging markets are still growing faster than the US or Europe, but the pace has slowed materially as the demand for global exports has moderated.

In overseas markets we expect earnings to pick up from currently depressed levels as corporations take advantage of low borrowing costs to expand and improve operating margins. While we wait for activity to pick up, a 2.5% dividend yield rewards our patience.

Managing Retirement Income

Baby boomers are reaching full retirement age at a record clip, and life expectancy continues to increase. How to fund the last twenty-five years (or more) of life has become a hot topic.

Spending concerns in retirement run the gamut from depleting assets too rapidly to being overly frugal. The first step is to take an accounting of the resources you have available and prepare a cash flow analysis. Retirement has traditionally been a three-legged stool: your 401(k) (or pension, if you are fortunate); personal savings; and Social Security.

Social Security makes up a substantial portion of many people's retirement nest egg, and is a

(cont'd next page)

1500 San Remo Ave., Suite 176
Coral Gables, Florida 33146
305.669.2119
www.firestonecapital.com

jack@firestonecapital.com
carol@firestonecapital.com
carlos@firestonecapital.com
anthony@firestonecapital.com

FIRESTONE CAPITAL MANAGEMENT

Safety in Numbers:
Ransomware

The newest growing threat on the computer security landscape relies primarily on the oldest methods: an enticing link in an email triggers an assault by Cryptolocker or some other "ransomware". This malicious software encrypts files on your computer, usually targeting photos and documents, leaving a demand for speedy payment in return for access to your own personal digital property.

Most viruses and malware infestations have cures, antiviral removal solutions, methods of resolving the problem. Cryptolocker does not. The malware can be removed, but the "kidnapped" files can't be retrieved without the specific encryption key. The key can't be retrieved, duplicated, or hacked.

Paying the ransom isn't a recommended choice: the criminal groups behind ransomware can't be trusted to release the key. They're more likely to increase their demands or target you again.

The best protection is preparation: backing up your files regularly to a cloud service, and activating the full protection of System Restore (built in to all Windows systems) puts your files out of reach of digital hijackers. Taking due care with your email and internet surfing makes the attacks less likely to reach you.

Retirement Income

(cont'd from page 1)

significant source even for the affluent. To put this in perspective, a benefit of $2000 a month is the equivalent of an extra $600,000 in savings, assuming a 4% annual draw. Although there is always talk of cutting or modifying Social Security, we believe that modest solutions can maintain sustainability of benefits.

Some factors affecting retirement withdrawal are within your control, to at least some degree. Other factors are beyond anyone's control, such as market returns, tax and fiscal policy, and unforeseeable health issues. But you decide how long you are willing to work, how willing you are to forgo current spending and save prior to retirement, how much investment or portfolio risk you are willing to take, and how healthy you try to keep yourself.

A 4% annual withdrawal is the standard rate recommended for a 60% stock/40% bond portfolio to last a lifetime – but that is just statistics. Maintaining a healthy portfolio over a lengthy retirement must go beyond simply following the numbers and percentages. If the stock market suffers a substantial decline at the start of your retirement, and distributions are funded by liquidating stocks for 60% of the cash needed, that portion of the portfolio would not be able to recover in a subsequent recovery.

A more dynamic approach to withdrawal rates, asset allocation, and market volatility is preferable. Several levels of liquidity, from money markets to short-term and intermediate-term fixed income investments, added to spending flexibility, help limit the need to sell equities at inopportune times.

Statistically, for a couple who are 65 years old today, at least one has a 47% chance of living to 90 or even longer. Longevity tends to be longer than average for our clients, who have access to quality health care and good nutrition. Retirement could last almost as long as your working years. Thoughtful and careful management of your portfolios is key to making your income last your full lifetime.

Supreme Court Says No Bankruptcy Protection for Inherited IRAs

One of the long-term benefits of savings in IRAs or 401k accounts has been that, not only are they tax-sheltered, but the assets are also protected from creditors and bankruptcy. Historically, bankruptcy law has always protected assets in employer retirement plans, and a decade ago, the amended law extended protection to most IRA assets: assets rolled over from company plans, as well as up to $1.24 million of contributed IRA assets.

With 45 million retirement accounts in the US today, representing a significant percentage of household savings (estimated at more than $5 trillion), creditors have long wanted to include them in the search for assets to repay outstanding debts. Until last month, IRA assets inherited and maintained in beneficiary IRA accounts had the same protection as other IRAs. But in a unanimous ruling released in June, the Supreme Court chipped away at that protection, declaring that IRAs inherited from anyone except a spouse could no longer be excluded from assets available to creditors.

The ruling created an additional distinction between IRAs that represent personal savings and those which have been inherited from someone else. IRAs which are inherited by non-spousal beneficiaries (children, grandchildren, and non-relatives) cannot be rolled over into personal IRAs, but must be segregated in specifically titled Beneficiary or Inherited IRAs, which have their own set of distribution requirements. Beneficiary IRAs have major planning benefits for heirs. A small IRA can be paid out over a 5-year time horizon, or larger IRAs can stretch out the payments (and tax liability) over the beneficiaries' lifetimes, following an IRS-tabulated schedule of minimum withdrawals similar to those of retirees.

This decision affects inherited IRAs only. But there is now a breach in the protection long enjoyed by all retirement accounts. For clients who have planned to leave substantial IRA assets to heirs, this ruling might require rethinking those plans. Consulting with your estate planning attorney for options is a good place to start.

Welcoming a New Team Member

Firestone Capital Management is pleased to welcome its newest hire, Jerad Waggy, CFP®. Originally from Texas, Jerad comes to us with eight years of experience as a senior financial planner with another local firm. He is excited to be part of the Firestone team, and looks forward to meeting and serving our clients.