



Qtr Notes

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Check Your Risk Score:

If the market correction has you concerned, this could be a good time to re-check your risk tolerance.

We encourage you to visit our website at firestonecapital.com: click the "Check Here" button on the front page (lower left, under "Risk Analysis") to complete your Risk Tolerance Questionnaire.

Quotes:

Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves.

Peter Lynch

The four most dangerous words in investing are 'This time it's different.'

Sir John Templeton

There's always something to worry about. The question is whether it is already factored into stock prices.

Hersh Cohen

Opportunity dances with those already on the dance floor.

H. Jackson Brown, Jr.

Markets React to Fed Indecision and Global Slowdown

For the past month we have been in a market correction. It's not fun – in fact, it can feel painful and frightening – but corrections are a normal, healthy part of investing. Markets correct from time to time, and one of the keys to successful investing is not to try to time markets to avoid temporary losses, but to continue to manage portfolios prudently and sensibly through the correction.

The correction which ended the third quarter was the worst period for US stocks since 2011. Market movements over the past three months have been frequent, sudden, and severe. Despite rising prices of goods and red-hot home values, global concerns continue to muddy the waters and drag on US growth prospects. Anxiety over China, sluggish global demand, declining commodity prices, and weak emerging market currencies all point to slowing global growth. Nearly half of all the S&P 500 companies have fallen more than 20% from their highs. Even Warren Buffet, probably the most famous value investor, has seen his own company's stock fall 15% this year.

So, now what do we do? Among the options to consider: sell to cash and hope to have the stomach and impeccable timing necessary to reposition before the next rally; rebalance aggressively and hang tough even if the markets continue to decline; or choose patience, knowing that there is no need to sell and it may be premature to buy aggressively. For clients with *uninvested* cash that can be committed for at least five years, this may be a good time to invest or to rebalance into the harder-hit areas. For retired clients who are concerned about cash flow, we can sell stable assets to raise a little more cash for peace of mind. The best tactic for the vast majority of investors with diversified portfolios is to stand pat.

Valuations in the US market remain mixed. The bulls argue that pessimism has reached extremes and this correction will soon reverse.

Index	9/30/2015	YTD
Dow Industrials	16,284.70	-8.6%
S&P 500 Index	1,920.03	-6.7%
Russell 2000	1,100.69	-8.6%
MSCI EAFE	1,644.40	-7.4%
Global Bond Index	446.20	-2.3%
10-Year Treasury yld	2.06%	

Bears contend that stocks remain expensive and prices could move even lower. No one can say with any certainty when the market will stabilize. What we do know is that the US economy is still growing; China is attempting to engineer more sustainable and domestically oriented growth; energy and commodity production has already started to adjust to new demand levels; and depressed foreign markets will benefit from more competitive currency prices. It is hard to say how long this round of market turbulence will last, but when markets corrected in the summer of 2011, they had recovered by January.

Why Rates Haven't Risen

It is no secret that the Federal Reserve is planning to raise interest rates: the big question is when. Interest rates have been kept low since 2009 to bolster employment and inflation, but rates can't be permanently held at zero. Holding rates too low for too long inevitably leads to market inefficiencies and inflated asset prices. The Federal Reserve admits as much and has been clear on their intention to start normalizing rates as soon as possible.

By the Fed's own definition, the stage will be set for rising interest rates as soon as inflation stabilizes near 2% and the economy reaches full employment. Today, inflation stands at 1.8% and the unemployment rate has fallen to 5.1%. This is pretty darn close to fulfilling the Fed's own mandates, and with signs of potential inflation heating up in real estate and other markets, most experts seem to agree that now would be a good time to raise rates. Yet Federal Reserve

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Safety in Numbers: Rules For the Road

With the holidays already around the corner, it's time to make travel plans! Plane tickets, travel insurance, smartphone security – does your list include that last item?

It should. In 2012, nearly 1 in 5 smartphone owners lost a device or had it stolen. Mobile device theft has fallen since its 2013 peak, as increasingly savvy users have learned to take effective security precautions. Here's a quick list of what you can do.

Prepare in advance: back up your mobile devices regularly, especially before a trip. Give honesty a chance: label your device with an email address or contact phone number. Locate and record your phone's unique ID number, called an IMEI: you'll need it if you have to report a loss. Basic security: use of a pass-code or even a passphrase; encryption; and, most important of all, a 'kill switch' app.

Every type of mobile device has a Find My Phone or similar app. These aren't robust enough for you to actually track a stolen phone, but they give you a way to wipe the device remotely, safeguarding your data and greatly lowering the value of the stolen device. Use of 'kill switch' apps is the single biggest contributor to the drop in smartphone theft.

The most important safeguard is the simplest of all: don't walk away and leave your phone behind in public. Many losses begin not with assault but with abandonment.

Why Rates Haven't Risen

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president Janet Yellen continues to hold fire until the absolute last minute. In the Fed's view, it is better to be tardy, risking high inflation, than to move too quickly and risk stifling the economic recovery prematurely.

What we are witnessing now are the unintended consequences of waiting. Five years ago, China embarked on an aggressive plan to restructure its economy, trying to shift from export-driven manufacturing to a more consumer-oriented base. The transition caused China's economy to slow and triggered a reduction in global demand for commodities. From there, the ripple effects have been felt in falling commodity prices and weakening emerging market currencies. This has culminated in a strong US dollar, cheaper import costs, cheaper material costs, but also less competitive US exports.

While the Fed has been waiting, global events have caused inflation to fall and made it even more difficult to justify raising rates. So when do we expect the Fed to raise interest rates? Fed Chair Janet Yellen claims she'll raise them before the end of the year, but markets have lost faith and put those odds at less than 50%.

Whenever the Fed does raise rates, the approach is likely to be slow and methodical. Most of the global market's reaction to the first hike has already been priced in. When it does finally happen, we can expect some noise, but mostly a sigh of relief.

Estate Planning Documents

What Do You Need Right Now?

We all want to be remembered fondly by our heirs not just for what we bequeath to them, but for making the whole process as easy as possible. Even the best-planned estates leave a lot of work for your successors when you are no longer here.

Where to start? There are basic documents each of us should have, beginning with a will. This gives you the power to decide who gets your assets and under what conditions. If you die without a will, the courts will make these decisions based on local law, which may or may not be in line with your wishes. Write a letter to leave instructions not appropriate for your will – things you hope, but don't require, to be done.

You need to keep your documents updated after major life changes, such as marriage, divorce, births or adoptions, inheritance, retirement, or the sale of a home or business. If you move, make sure your will is valid in your new state.

Be sure beneficiary designations are correct and up to date for all your insurance policies and retirement accounts. These designations are powerful: they take precedence over instructions in a will. Your retirement plan and IRA accounts will already have beneficiaries, but most personal accounts do not. A special designation called a TOD (Transfer on Death) may be used for these assets.

For more complicated estates, another tool for passing assets to heirs while avoiding potentially expensive and time-consuming probate is a Revocable Living Trust – "revocable" because you can change it as long as you are legally competent. You may also need a Durable Power of Attorney, in case you become incapacitated and cannot act on your own behalf. These documents should be drawn up by an attorney specializing in estates.

Other valuable documents include a Durable Health Care Power of Attorney, in which you name someone to make medical decisions for you if you're incapacitated. You should also have a Living Will, which lets you specify what types of care you do and do not want. Some states combine these two documents into one "Advance Directive" form.

Don't overlook your digital legacy, including information stored on your mobile devices or in the cloud, your computer hard drive, digital photos and other media, and online accounts such as Facebook. One of the most critical documents your successors will need is an up-to-date list of your passwords and login IDs. Keeping this kind of list current is a challenge that you may want to solve with a password manager.

Make certain your family knows where to find everything you've prepared: make a list of documents and note where each is stored. This should include insurance policies and annuities, family records (birth, adoption, death, divorce), real estate deeds, bank and investment accounts, credit cards and bills. Include contact information and account numbers for each, so your representative can settle accounts and leave your affairs in good order.