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Form ADV Offer:

Each year, the SEC requires that we notify clients when we have updated our disclosure brochure, known as the Form ADV Part II. You can download the updated document from our website by entering the following URL into a browser:

firestonecapital.com/docs/FCM Form ADV Part II.pdf

If you would like a copy sent to you directly, please call our office. We will be happy to mail or email you one.

Quotes:

Don't confuse brains with a bull market.

attributed to Humphry Neill, 1895-1977

It's better to prepare than it is to repair.

Mitch Anthony, financial planning consultant

It ain't what you don't know that gets you into trouble. It's what you know for certain – that just ain't true.

Josh Billings

Where are We Now, and What's Ahead?

We are nearly eight years into the current economic recovery, which is now the third longest in history, surpassed only by the booming 1960s and go-go 1990s. The US economy has been growing and seems on track to continue expanding. Business capital spending is increasing. Jobless claims are at a 44-year low. Manufacturing continues to expand. Home prices continue improving across most of the nation, and as the stock market has risen, investor optimism is near a 16-year high. Most sectors continue marching higher and total employment levels are keeping pace.

Index	*3/31/2017*	*YTD*
Dow Industrials	**20,663.22**	**4.6%**
S&P 500 Index	**2,362.72**	**5.5%**
Russell 2000	**1,385.92**	**2.1%**
MSCI EAFE	**1,792.98**	**6.5%**
Global Bond Index	**459.30**	**1.8%**
10-Year Treasury yld	**2.40%**	

One area of concern is the retail sector, with a wave of recently announced store closures and bankruptcies within the sector. The trouble is not a result of weakness on the consumer end: retail sales are strong and consumers are spending. But physical storefronts are expensive, and consumers are spending more time – and money – online. To win customers, retailers online and in-store continue to offer price incentives, which help consumers' pockets but puts pressure on profit margins. The good news is that aggregate retailer revenues should continue rising.

As the labor market tightens, wages are growing, slightly ahead of the general rate of inflation. Since rising employment and healthy levels of inflation are the primary goals of the Federal Reserve, the Fed is moving forward on its commitment to raise interest rates. Rates were increased 0.25% in March, the first of several expected hikes this year intended to dampen inflation and prevent excessive growth. The Fed has been upfront about its intentions for a gradual path of rate hikes, and investor pricing of stocks and bonds already reflects this. The deliberate and moderate pace indicates the Fed doesn't expect either runaway inflation or a recession on the immediate horizon.

We remain in a period of stable and moderate expansion, but we shouldn't ignore the potential pitfalls ahead. The most apparent risk is that US stocks have become more expensive in recent years as a result of the continuing economic improvement. If the economic recovery stutters or corporate profits stall, valuations could come under pressure and stock prices could temporarily fall. We aim to be mindful of these risks and diversify against them.

The Trump administration has released its first budget proposal, highlighting grand ambitions to cut spending to nearly all government programs, excluding Defense, Veterans' Affairs, and Homeland Security. The largest cuts by size are to the State Department, Health and Human Services, and Education. The budget proposal is not yet law and faces strong opposition, but it speaks to the overall intention of reducing the size of government. Elimination of numerous regulations will likely please businesses and should boost corporate profits. In the short term, the economy may become more efficient, but long-term implications could make these efforts appear penny wise and pound foolish.

An early failure for tax reform came with the defeat of the American Health Care Act. The Congressional majority pushed to get rid of the taxes which funded the Affordable Care Act (Obamacare), while keeping the most popular provisions. With the ACA remaining the law of the land, investors in the highest tax brackets should continue to plan for a 3.8% surcharge on investment income and an additional 0.9% Medicare tax on earned income over $250K.

With health care reform temporarily shelved, broad tax reform is the administration's next

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Life Transitions

When was the last time you sat down to think through upcoming life events?

It is a good idea to periodically review your financial goals and the path towards achieving them, with an eye towards major events that are likely to occur in your life. Some events may be planned for well in advance, such as retirement, while others can be unexpected and take some adjustment. A birth or a death, a marriage or a divorce, an illness or a recovery, an opportunity for a relocation or a career change can require a re-evaluation of existing plans.

Money has a purpose: it's there to provide for yourself, those you love, and those you wish to support. Are you maximizing the lifestyle which your wealth could afford? Are you maximizing the charity that your assets could support? Should you adjust your spending so that your wealth can accomplish more in the future?

Life events almost always bring new financial risk and opportunities, and are a great reason to sit down with your financial planner to ensure you are financially prepared.

What's Ahead?

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major agenda item. Changing our tax code is never easy; there are always numerous competing interests. The last major tax reform, in 1986, took nearly two years to finish. Corporate tax reform is the most likely area for agreement. The US has the highest corporate tax rates in the world at 35%, though innumerable loopholes lower the burden for many. US corporations have gone to great lengths to minimize their taxes, including leaving foreign cash profits abroad. Corporate tax reform should aim to repatriate these foreign profits, which amount to hundreds of billions of dollars. Large cash reserves returning home would be favorable for US investors, as funds will be be used for new investment, stock repurchases, and dividends to shareholders.

Individual tax reform will carry significant implications for all of us, but concrete details are scanty at this point. A blueprint presented early in the campaign proposes to consolidate the number of brackets, reduce the absolute rates, and simplify the application of deductions. Individual tax reform, along with announcements on the estate tax, may start to develop later this year, with potential news around August.

The Markets

In 2011, we experienced a 20% temporary decline in the stock market. Today, this barely registers in memory, as we focus on the 8-year bull market that followed the end of the Great Recession. The US economy has been slowly improving, home prices and stock markets have risen, and investor net worth has notched new highs over the past 12 months. Europe is growing again also, and we've seen an uptick in economic growth in most emerging markets. Despite anti-trade rhetoric, the world economy is doing all right. Over the past year, foreign market prices have improved nicely, and European stocks have had their strongest quarter since 2015.

All seems well at the moment, but we'd be unwise to let our guard down. Asset prices have generally been rising faster than profits, and valuations have increased. International stress points include Britain's exit from the European Union and the potential election in France of Le Pen, a vocal critic of the EU. In the United States, we are concerned the economy may not grow sufficiently or that interest rate hikes will prove too burdensome.

As we continue to enjoy gains in portfolios, we will seek to harvest profits and continually rebalance. We are committed to diversified portfolios that balance exposure to growth assets with the ballast of more conservative bonds. We are committed to diversifying globally, to enjoy exposure to additional growth markets and to diversify from the risks our own domestic stock markets face.

Asset Registration

When properly titled, your assets should be structured to give you the most financial benefit during your life while easing the transition to the next generation. The titling of an asset – a bank or investment account, piece of real estate, insurance policy, etc – declares the current legal ownership. Beyond defining ownership, the titling of an asset affects inheritance, liability, and tax efficiency.

Inheritance is defined first by contract, then via the will, and lastly via law. Retirement accounts, annuities, and joint accounts are all examples of account structures that have an embedded contract that defines the primary beneficiary. Most other assets held in an individual's name, including personal effects, are divided per the will. A person's will, properly drafted, serves as the key legal blueprint during probate, which can take as little as few weeks, or many months to a year or more. Because of the time and cost associated with probate, a well-structured estate, drawn up with the help of a trusted attorney, should ease the process and minimize delays.

For non-retirement accounts, a trust serves as the most common structure for minimizing probate. While effective for this, trusts are not appropriate in all cases: for example, joint ownership of a primary residence offers a mixture of control and liability protections which can be lost using a trust.

Asset titling, estate structure, and beneficiary designations should be reviewed periodically. Major life events (marriage, divorce, births and deaths) are especially key moments to revisit the instructions that will define your legacy. There is no single account title structure or estate structure that is optimal for everyone. Your personal circumstances need to be evaluated to decide what best suits your situation. We will be happy to work with you and your estate attorney to ensure your assets are titled in a manner consistent with your long-term goals.